

**Remarks by
Chairman Donald E. Powell
Federal Deposit Insurance Corporation
"Depository Institutions in the Lead in Building Assets in Emerging Markets"
National Community Investment Fund Annual Network Conference
Washington, DC
March 26, 2003**

Good morning. Thank you for inviting me to speak today.

I am here to talk about how all of us can do a better job of ensuring banks provide access to capital for families who need it. Some banks are already doing this - and doing it well. They are taking the lead in expanding their bank's presence, activities and customer base in underserved emerging markets, and they are an inspiration to many of us who believe deeply in achieving this important goal.

We have been busy for quite some time at the FDIC, and the financial industry as a whole, grappling with the vexing question of how to better integrate many Americans into the financial mainstream. I welcome the opportunity to discuss with you how the financial industry is meeting that challenge and what still remains for us to do.

About seven years ago, Congress passed the Debt Collection Improvement Act. One of the purposes of this legislation was to provide incentives for individuals to receive federal payments electronically through direct deposits, and increase their access to accounts at federally insured financial institutions. An unexpected outcome of this effort was that it exposed the huge number of people without bank accounts - a number estimated to exceed 10 million. Over 10 million unbanked people in America. It also made clear the need for further dialogue among the bankers, policymakers, community groups, people in academia and others about how to broaden access to the financial infrastructure many of us take for granted.

Now that we understood the magnitude of the need, many questions followed: Who are the unbanked? Why are they outside of the financial mainstream? Why does their absence matter? What are the obstacles that impede their access to bank services? What are the benefits of bringing them into mainstream banking services? And, what strategies, products, policies and partnerships can be developed to facilitate a banking relationship?

Clearly, getting the answers required more research on the unbanked. It also called for identifying new business opportunities, recognizing the need for creative marketing efforts and developing innovative initiatives from bankers themselves.

So, seven years later, do we have answers? Some, perhaps, but certainly not all.

We now know, for example, that adults without transaction accounts - such as savings, checking, mutual funds and money markets - are more likely to have low incomes, be younger than 35, non-white or Hispanic and unemployed. We also know they do not own their home, they have limited English speaking ability and they have low levels of wealth.

We know that many of these individuals live from paycheck to paycheck and remain unbanked for reasons ranging from problem credit histories and debt burdens, to distrust of financial institutions, to the lack of financial education.

We also know that these households, when cut off from mainstream credit, will try to find it informally by turning to high-cost lenders such as pawnshops, car-title lenders, payday lenders, check-cashiers and wire-transfer companies.

We also are aware that unbanked households represent a category of customers that can be potentially profitable to depository institutions. According to the Financial Services Centers of America, check cashiers process 180 million checks annually with a face value of \$55 billion. According to a recent article in the American Banker the wire-transfer market generated more than \$122 billion in remittances. There is certainly a lot of activity in this area, and this would support the premise that these might be profitable bank customers.

Banks that reach out to establish relationships with consumers participating in fringe financial services may be able to reap the rewards of cultivating new, full-service customers; building relationships that will improve with their economic circumstances.

A lot of industry discussion and media attention has been generated recently regarding the unbanked in general and the rapidly growing segments of ethnically diverse consumers who are either unbanked or underbanked. These population groups include immigrants, as well as African-Americans. They represent emerging markets for new and expanded bank products and services.

Interest in multi-cultural markets has skyrocketed since the release of the 2000 census demographics. The statistics that have stimulated such keen interest are well known. Asians make up 4% of the U.S. population, and that percentage is expected to grow to 6.5% by 2025. The Hispanic population, currently around 13%, is expected to reach 18% in that same period.

According to estimates cited by the Research & Advisory Group, by 2007 we could see spending on investment products by Asian-Americans climb 77% and spending by Hispanics should surge by over 90%. In addition, the rise in homeownership among African-Americans by 89% between 1993 and 2000, make them an attractive market segment for bank products and services. The growing economic clout of these groups represents new untapped markets. For banks that successfully reach them, these groups represent a significant business opportunity.

The broader question now is whether the financial services industry - and their regulators - can effectively encourage the type of products, services and outreach that will motivate these customers to enter the mainstream market.

I believe we can, and in many instances we already are.

The FDIC, for its part, is committed to promoting this effort through our financial education curriculum, Money Smart, which we developed to help build awareness among the unbanked about the benefits of banking relationships. We are focused not only on quantity, but quality. We are developing performance measures that will enable us to determine the results of our efforts. Our goal is to make a difference in peoples' lives.

But our educational efforts don't just stop there. We believe financial education is more effective when offered in conjunction with other asset building strategies, such as opening a new accounts, Individual Development Accounts (IDAs), free tax preparation for Earned Income Tax Credit (EITC) refunds and job-training. FDIC has taken the lead in establishing partnerships with community and banker coalitions to link EITC funds with bank services, free tax preparation services and financial education. We support a number of EITC programs located in the Midwest, including Chicago, Milwaukee, Toledo, Louisville, and Rockford. During the 2002 tax season our work with the "Back of the Yards" VITA site in Chicago helped over 600 families file tax returns and receive \$1.1 million in EITC refunds. As a result of linking these efforts with banks onsite we were able to see many unbanked consumers establish new bank accounts.

In March 2002, President George Bush and Mexican President Vicente Fox launched the U.S.-Mexico Partnership for Prosperity, as a way to address the growing problem of the high costs associated with sending money from the U.S. to Mexico. One element of the plan is to encourage more banks to open accounts with legal immigrants and offer remittance features. It also mentions how financial education programs, such as the FDIC's Money Smart and the U.S. Treasury's First Accounts program, can demonstrate the benefits of using financial institutions as alternatives to high-cost wire transfer services.

Over the past year, the FDIC Chicago Community Affairs Program has been working with a number of partners including the Mexican Consulate, IRS, and banks to address the remittance issue. To date, 36 banks in Illinois and Wisconsin with more than 1,800 branches in the Midwest are opening new bank accounts for Mexican workers. Mexicans working in the U.S. can deposit money into their accounts at a financial institution in the U.S. and obtain two ATM cards, one for their use and one to send to a family member in Mexico, thus avoiding costly fees charged by money transfer companies. The Mexican Consulate in Chicago has taken the national lead on issuing Matricula consular cards, and in a pilot program, modules of the FDIC's Money Smart program were taught in Spanish to Mexican workers at a consulate site in Elgin, Illinois while they waited to receive Matriculas.

Obviously, having people just go through a financial education program is not enough. Many individuals who complete Money Smart classes will still not have access to mainstream financial services. How can we best help them?

Fortunately, many banks understand that attempting to reach unbanked consumers through nontraditional methods is good for their business. The growing success of institutions reaching out to the unbanked indicates this segment of consumers can be brought into financial institutions with the right product mix and marketing strategy.

One such example comes from a bank in the Midwest, which has taken a creative leap by reaching out to one of the least banked groups in America: immigrant teenagers. For the past three years, the bank has operated a full-service branch inside a high school, located in a low-income district of largely Hispanic immigrants. The branch, which is run by students who earn credit towards graduation requirements while working under adult supervision, has been so successful that many of the students' parents now deposit their paychecks there. At least 90% of these new customers have never had bank accounts.

Another example comes from a bank located on the West Coast, who recognized the need to provide affordable banking services to the unbanked. The bank created a hybrid check-cashing/banking initiative aimed at linking low- and moderate- individuals to traditional banking services. A number of branches specifically designed to serve the needs of households outside the financial mainstream were established. Another component of the initiative is financial education seminars and workshops offered by the bank through about 80 community-based organizations. Informal education is also offered at the teller window. Tellers describe account options and encourage new account holders to start a savings account. All materials are available in Spanish and its bilingual staff is recruited from the community it serves. The bank also serves as a "one-stop" financial institution for its customers. It offers variety remittance services for account and non-account holders, as well as an array of financial services with low fees to non-account holders, including check-cashing, money orders and bill payment services. In addition, the bank also works with some employers to provide on-site ATMs, check cashing and account opening services.

The private sector innovators are opening doors for the unbanked. To continue these efforts we need to further explore the issues that inhibit the participation of unbanked consumers in America's financial mainstream. We, at the FDIC, will contribute by bringing good lenders, good products, good services and good information to the unbanked and burgeoning multicultural markets.

I recently read with great interest NCIF's April 2002 report "Retail Financial Services Initiative: A Report on Innovative Products and Services for Low Income and Unbanked Customers." I am pleased we share an interest in identifying solutions to address both the immediate and long-term needs of the unbanked. Addressing these needs is not as simple as opening a bank branch in underserved neighborhoods. The report recognizes and outlines a number of alternative delivery strategies and products for financial

services. The proposals merit more dialogue if we are to stimulate asset building habits in a larger way, and penetrate new markets on a profitable scale.

I have provided you with several examples of what we are doing at the FDIC and a couple of innovative approaches that are being implemented by banks to bring the unbanked into the financial mainstream. Which brings me to a question under consideration at the FDIC, "What next after Money Smart?"

I would like to announce today that our first step is to host a roundtable in Chicago, in partnership with NCIF. We would like to bring together the right people, with a broad spectrum of experience, who can help us explore creating a program --sponsored by banks, major employers and other entities -- to provide services in low- and moderate-income communities. Our discussions will center around developing a Pilot Program to help us implement this important goal.

I hope the proposed forum can provide us with the innovative solutions that are needed for banks to better meet the needs of the unbanked and an opportunity to become more progressive helping banks meet their community lending responsibilities.

We have a great banking system in this country. Everyone should have an opportunity to participate in it. With your help on the proposed forum I think we will have the means to offer better financial alternatives to the most needy in our society.

Thank you for inviting me to join you here today. I look forward to continued dialogue with you.

Last Updated 03/26/2003