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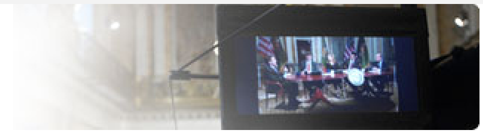

Remarks by Assistant Secretary for Financial Institutions Michael S. Barr CFED Asset Learning Conference

9/22/2010

TG-868

Hello, it is great to be here with all of you. What an amazing assemblage of people who care deeply about all Americans being able to save, build assets, and invest in their future and our country's future. The feeling of power and energy in this room is palpable. Thank you to Andrea and the Corporation for Enterprise Development for inviting me to speak with you today.

When President Obama came into office a little more than 18 months ago, our financial markets were frozen, our economy was shrinking, and we were facing the worst economic crisis since the Great Depression. We were losing nearly 800,000 jobs a month. Small businesses were closing their doors. Home prices were in free fall. The President broke the back of the financial crisis, stabilized the housing market, and restarted economic growth. Today, the Administration's efforts have stabilized our financial system, started the economy growing again, and reduced the widespread harm brought by the failed policies of the past.

Even though the economy is healing and businesses are starting to hire again, it will take time to fully heal the scars of the crisis. We were stuck in a deep hole, and millions of Americans are still suffering from the damage caused by the policies of the past.

Over the last decade, the poverty rate climbed to 14.3 percent. Now, 1 in 7 Americans lives in poverty. These families were the least prepared to handle the shock of the recession. Low and moderate income households usually have little or no savings to fall back on when they face a personal economic crisis, such as losing a job, a medical emergency, or the need for a major car repair. These realities are something many of you know all too well. You have seen this first hand with the families you work with.

Enabling low- and moderate-income families to build assets will not solve all of these issues, but it will help create greater financial stability for individuals and families. It will allow families to invest in their future by helping them build retirement savings, save for an education, or save to buy a house. Financial stability and the ability to invest in the future is a pragmatic imperative for American families.

This administration has moved forward aggressively with asset building initiatives for low-and moderate-income Americans. We, in partnership with many of you, are building the solid foundation required to encourage and empower people to save for the short and long term. Asset building requires three significant components: financial education, financial access, and consumer protection.

Financial Education is critical. People need the financial skills and knowledge to help them make good decisions. The Treasury Department in conjunction with the Financial Literacy and Education Commission has recently issued a draft of core financial competencies. The development of core competencies is a fundamental step in establishing a clear understanding about what individuals should know and the basic concepts program providers should cover. Furthermore, the Core Competencies are particularly important in establishing a baseline of knowledge, which is crucial for both individuals and providers of financial education. This baseline of knowledge addresses the current lack of consistency in various financial literacy programs in identifying goals and objectives including how program success is measured, and what financial information and problem-solving skills participants can be expected to acquire.

There is also significant evidence to show that financial education is most effective when it is immediately relevant, is part of a financial decision, and there is a product or services that will allow the individual to carry out their decision, which brings us to the next key piece.

Financial education must go hand-in-hand with Financial Access. Individuals need the knowledge to make good financial decisions, but that knowledge is not helpful unless they have access to safe and affordable products. Likewise, if individuals have access, but a poor understanding of how to use the products or services, the chance for misuse or that they will be taken advantage of is much greater. Effective financial education and financial access combine together to create Financial Capability: The ability of individuals to make and execute good financial choices for themselves and their families.

I want to talk a bit more about access. First, there is access to basic financial services, because without basic financial access, asset building becomes much more difficult. Low- and moderate-income households in the United States often lack access to basic, mainstream financial services. An estimated 9 million households do not even have a bank account [1] -- the service that is usually the starting point for entry into the formal financial system. Without bank accounts, these families face high costs for conducting basic financial transactions through check cashers and other alternative financial services providers. These families find it more difficult to save and plan financially for the future. Living paycheck to paycheck leaves them vulnerable to medical or job emergencies that may endanger their financial stability, and a lack of longer-term savings undermines their ability to invest in continuing education, purchase a home, or send their children to college. Another 21 million households are underbanked, which means they have a bank account, but are not well served by those accounts and still rely on alternative financial services for money orders, check cashing, and pay-day loans [2].

Mainstream financial services providers have made some strides towards expanding access. But our financial services industry is still bifurcated, with mainstream financial services products inadequately tailored to the needs of the unbanked and underbanked or to low- and moderate- income households. As a result, these households too frequently do not or cannot avail themselves of the opportunities to build assets and create wealth that mainstream financial services products can give people.

Furthermore, the current product offerings of many banks are not meeting the needs of the unbanked and underbanked consumers. These products and services need to be able to meet the customers' needs with reasonable costs, and must also be sustainable for banks. Overdraft and other fees are one of the best examples of this mismatch. The FDIC did a terrific study of these programs in 2008, and its results were troubling. The FDIC found that overdraft fees hit low-income areas and households the most, and that 14% of account holders – those living paycheck to paycheck – pay over 90% of total non-sufficient funds (NSF) fees. Debit card transactions comprise the most frequent type of overdraft; in these cases, the amount of the transaction – a median of $20 – is generally lower than the size of the fee – a median of $27. If this loan – generally unasked for – is repaid in two weeks, the APR calculates to over 3,500 percent. [3] In addition, the FDIC's National Survey of the Unbanked and Underbanked in 2009 examined the reasons that previous banked people closed their accounts. 20% [4] of these account closures were due to too many overdrafts or bounced checks or service charges being too high. The previously banked are a significant segment of the unbanked, roughly 50% [5]. These fees are driving low-income people out of the banking system.

Our discourse seems to be stuck in this current argument that there can only be a trade-off between banks making money and low-income customers having affordable and safe accounts, and that both cannot happen simultaneously. That is not right. Banks do need to be able to make a reasonable profit in this segment to have a long term sustainable solution to address the unbanked. There is a need to leap forward out of the current paradigm I described. That leap will be fueled by new product and service innovation. There has been significant movement in technology advances. Reloadable prepaid debit cards and bank accounts with only debit card access hold promise as a low-cost financial transaction tool. Mobile applications – such as texting to convey account information or facilitate remote check deposits – are growing and expanding service offerings with the potential to reduce costs.

The unbanked and underbanked currently spend billions of dollars on high-priced alternative financial services. The banking industry is undergoing changes and seeking to find new business models to grow and prosper. It appears that there is a great opportunity for innovation that can both address the needs of the unbanked and underbanked in a safe and affordable way, as well as provide profitable and sustainable products for banks. We hope that these innovations will both reduce the cost to serve the customer and provide services that better meet customers' needs.

We also need access to asset building resources. The nature and the amount of resources that are devoted to encouraging asset building have a significant impact on asset building. The vast majority of asset building resources benefit middle- and upper-income families, who are able to take advantage of tax subsidies that promote homeownership and retirement savings. There is a need to make more resources available to encourage low and moderate-income individuals to build assets and the Obama Administration is taking steps in that direction.

In addition, initiatives for access and asset building must build on what we have learned from behavioral economics about how people make financial decisions and what we can do to encourage them to save. We need to empower consumers to make good choices for themselves and their families. We need to recognize that inertia is a powerful part of human decision. Anything that we can do to create an automated aspect to savings decisions has a lasting impact. How choices are framed and ordered can also have big impacts, which requires us to be intentional about the architecture of choice; defaults are ubiquitous and powerful, so choose the default wisely, and people view gain and loss differently, so an assurance of safety can be an attractive draw to save. These are just a few of the lessons that behavioral economics has taught us about human behavior. These and other lessons should be considered wisely to access and asset building efforts.

The President's 2011 budget begins an effort to commit more resources to asset building for low- and moderate-income people. Let me highlight a few specific proposals.

Automatic IRAs would offer convenient access to tax-favored saving for workers whose employers do not currently offer a 401(k) or any other retirement saving plan. Currently, half of American workers have no opportunity to save for retirement at work. Under this proposal, most private sector employees working for employers with more than 10 employees who are not currently covered by a workplace retirement plan would be given the opportunity to save through regular payroll deposits that start and continue automatically, unless the worker elects out, and the savings would be deposited into the worker's own IRA. The employer would receive a temporary tax credit. The automatic IRA approach is intended to help these households save by overcoming the barrier of inertia.

Expansion and enhancement of the Saver's Credit will make it more valuable to lower income workers and to cover millions of additional households. The proposal would provide a uniform refundable 50% credit as a direct-savings match for low- and moderate-income workers who contribute to retirement-savings plans, whether or not they have any federal income tax liability. All eligible savers would receive equitable tax treatment.

We've proposed reform of asset limit rules that determine eligibility for public assistance programs, so they encourage, rather than discourage, saving. This enables low-income people on public assistance programs to build savings that can be used to invest in their future to help them climb out of poverty.

Our proposed Bank On USA initiative will encourage local and state collaborations between government, financial service providers, community organizations, and financial educators to address basic financial access issues and innovative savings approaches.

And the Administration has begun to take action on the great opportunity to improve the tax administration process while simultaneously providing opportunity for low- and moderate-income people to get access and build assets. That means:

1. Making tax time safer by licensing and examining tax preparers.
2. Eliminating the provision of the debt indicator to banks for use in making refund anticipation loans.
3. Undertaking a tax time account pilot that will launch in 2011, and will inform the structure and value of expanded tax time account efforts in the future.
4. Exploring how to allow individuals to pay for tax preparation directly out of their refund with proper fraud protection.
5. Improving the process to make it possible for people to save part or all of their tax refund by enabling direct purchase of savings bonds in the tax process.

All of these efforts must take place on a level playing field. That is why Consumer Protection is another critical building block to asset building for all. Without these changes long-term growth will be weakened and families, businesses, and taxpayers will be exposed to unnecessary risk. The pain our country has endured in the recent past should leave no doubt about the high-cost of failing to have either in place. The Administration worked in partnership with Congress to craft and pass the Dodd-Frank Act that the President signed into law. This law will deliver the financial reform and consumer protection we need. Thank you to all of you who worked in partnership with the Administration to pass this historic legislation.

One of the central aspects of this legislation is the creation of the Consumer Financial Protection Bureau, whose sole mission is to look out for American consumers and empower them with the clear and concise information they need to make the financial decisions that are best for them and their families. The Consumer Financial Protection Bureau will create a level playing field for all providers of consumer financial products and services, regardless of their charter or corporate form. It will ensure high and uniform standards across the market. It will help lead efforts to increase financial literacy. It will rein in misleading sales pitches and hidden traps, and foster competition on the basis of price and quality. In short it will enable markets to work fairly based on clear information.

At the Treasury Department, we have been working aggressively on the creation of this new bureau. We are determining how to consolidate core authorities that are currently fragmented across several federal agencies. We are working to ensure fairness and transparency for mortgages, credit cards, and other consumer financial services. We are taking a hard look at large nonbank providers of other consumer financial services, such as credit bureaus and debt collectors. We are planning for the provision of consumer assistance and education nationwide, including literacy programs, online resources, and a consumer complaints hotline. We are working to establish the offices that will focus on protecting military families and seniors that will exist within the Consumer Financial Protection Bureau. In sum, we are launching the Consumer Financial Protection Bureau to empower American families.

Those are the three major building blocks to help spur asset building for all: financial education, financial access, and consumer protection.

There is another building block that is as important, if not more important, than all the rest. This is the Asset Building Movement. That is all of you. You are what has gotten us to this moment. We have accomplished so much and have the opportunity to accomplish much more. If it were not for all of you we would not be where we are today.

1.) You have organized people to fight for asset building policies.

2.) You have encouraged people to utilize programs that work. For example, tax time savings bonds, IDAs, and the EITC.

3.) You have supported local Bank On efforts to foster savings and build assets.

4.) You have innovated and taken good risks on new approaches.

5.) You have demonstrated that the best ideas for getting to scale are ones that are sustainable for businesses as well as individuals.

6.) Statistics and evaluation are important and what good programs should be built on, but you have also told the individual stories of success that move people to action.

Thank you again for the opportunity to speak with you today. You are all amazing and we look forward to working together with you to build a Stronger America. An America where working hard and playing by the rules means security for our families and hope for our future. Where firms compete based on price and quality, not tricks and traps. Where old fashioned values of thrift are rewarded. And where once again America leads the world. Thank you very much.

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[1] FDIC National Survey of the Unbanked and Underbanked 2009.

[2]FDIC National Survey of the Unbanked and Underbanked 2009.

[3] FDIC Study of Bank Overdraft Programs (November 2008).

[4]FDIC National Survey of the Unbanked and Underbanked 2009.

[5]FDIC National Survey of the Unbanked and Underbanked 2009.