

Remarks by
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Financial Literacy: A Key to New Banking Markets

It's a pleasure to join you at your annual Community Reinvestment Act conference -- another opportunity for CBA to reaffirm its standing as one of the premier banking organizations in this country. A large share of the credit for your success goes to Joe Belew, who over the years has led with intelligence, conviction, and style.

One of the most important of your products is your survey of the industry's financial literacy efforts. When it was first released last summer, the survey confirmed what many of us already knew: that thousands of Americans have been smarter financial consumers -- and more successful participants in the economy -- because they attended educational programs developed, financed, and carried out by banks across the country.

This year's survey reflects an even more impressive variety of bank-sponsored programs: credit counseling, small business development, in-school tutoring, foreclosure prevention, and more. Of the banks surveyed -- a group that represented almost 60 percent of the industry's total assets -- nearly all said that they contributed to the war on financial illiteracy in some way, with more than half serving as primary sponsors of the programs in which they participated.

Clearly, bank-sponsored financial education programs have not only benefited the people who have enrolled in them, they've also earned respect and good will for the industry.

Yet when you think about it, the wonder is not that financial institutions have been so busy and active in promoting financial literacy, it's that there are still banks out there that aren't involved.

There are certainly plenty of reasons for public-spirited bankers to become involved in the effort to promote financial literacy. Evidence confirms that people who have been through well-designed and well-executed financial education programs are more likely to make sound economic choices for themselves and their families.

They're more likely to own their own homes and to keep them, with all of the social and economic advantages that go with homeownership. They're more likely to accumulate assets and less likely to be burdened by excessive debt. As Treasury Secretary Paul H. O'Neill recently said, "Ownership, independence, and access to wealth

should not be the privilege of a few. They should be the hope of every American. Financial literacy is an essential tool to make that hope a reality."

Studies also tell us that financial education is an indispensable element of any strategy to combat the rise of predatory lending. I don't need to tell you that abusive lending has become a serious public policy concern -- and a serious concern for the financial services industry.

Although those who engage in predatory practices are relatively few in number -- and only rarely include regulated depository institutions -- they've done real harm to the reputation of all financial institutions. It's therefore very much in the industry's interests to assist in efforts to oust the bad actors.

One of the best ways we've found to do that is through education, with programs that focus on the most common victims of predatory lending -- particularly the poor, the elderly, and minority groups -- programs that provide information on predatory practices and on non-predatory financial options. I was encouraged to see that more than half of the respondents in the current CBA survey reported addressing predatory lending issues in their financial literacy programs.

The predatory lending problem illustrates what I think is a point of surpassing importance: altruism that's reinforced by self-interest is most likely to produce results. And I believe that banks have a strong self-interest in promoting financial literacy.

High among the reasons why banks serve themselves when they serve others through participation in financial literacy efforts are regulatory considerations, and particularly CRA considerations.

We and other financial regulators give CRA credit for financial literacy programs in assessing your record of serving the needs of low- and moderate-income individuals. Banks' participation in these programs may receive consideration under the CRA regulations.

For example, the Interagency Q&As offer a long list of activities that would qualify for consideration under the CRA service test. The list includes such things as:

- providing technical assistance on financial matters to small businesses;
- providing credit counseling, home buyer and home maintenance counseling, financial planning or other financial services education to promote community development; and
- establishing school savings programs and developing or teaching financial education curricula for low- and moderate-income individuals.

Regarding the investment test, the Interagency Q&As note that when financial institutions make investments in or grants to non-profit organizations that provide counseling for credit, home-ownership, home maintenance, and other financial services education, such investments will qualify for CRA consideration.

Clearly, financial literacy activities can play a big part in any financial institution's overall CRA strategy. And we know that some of our largest institutions already play such a role.

But banks should not get involved in the financial literacy crusade merely as a matter of public spirit or regulatory obligation. They should do it because it makes good business sense -- because a financially literate public is the natural market for bank products and services.

It's now well known that there's a large pool of unbanked Americans -- people who may use the banking system for a casual transaction or two, or maybe not at all. By definition, they don't have a savings or checking account, and they rely on nonbank financial providers when they need to cash a check or buy a money order. According to some estimates, this group may constitute up to ten percent of all American households.

Then there are the underbanked, as I call them -- millions of people who may have a bank account, but who rely to a greater or lesser extent on high-cost, short-term credit provided by nonbank lenders, often in the form of payday loans.

There are significant differences between these two groups. But they also have a lot in common. Both generally pay more than they should have to for financial services in a fully competitive market. Both would benefit from more comprehensive banking relationships. And for both, financial literacy programs may hold the key to getting there.

Let me emphasize again that for banks, this should be a matter of enlightened self-interest. This a lucrative market that we're talking about. Overall, those who serve the unbanked and the underbanked do exceedingly well at it. In 2000, Americans cashed 180 million checks at 11,000 check-cashing outlets, generating fees of \$1.5 billion. And the payday loan industry has been booming. Today up to 10,000 outlets nationwide make payday loans -- and earn fees that may total as much as \$2.2 billion.

While many will say that fees for these services are unreasonably high, bankers in this country can't afford to ignore the number of consumers using these services. They clearly demonstrate a market opportunity.

Is it realistic to think that bankers can gain a bigger share of this promising market? Clearly, it won't be easy. The nonbank providers that currently control the market possess a number of advantages -- not the least of which is public acceptance.

Check cashers and payday lenders have attracted customers for a reason -- or for a host of reasons. They keep longer hours than banks. They tend to be more conveniently located. They speak their customers' languages. They don't ask for a lot of intrusive paperwork. They frequently offer more of the retail products and services these customers need than banks do -- including money orders, wire transfers, and bill payments, as well as short-term, low-denomination loans.

They're set up to work fast -- a fact of paramount importance to many payday borrowers, who are usually impatient for their money and won't wait days or weeks for a loan to be approved. In short, they're more user-friendly. And nonbank providers can often claim -- correctly -- that their services cost no more -- and sometimes less -- than the same services provided by banks -- that is, when those services are even available at banks.

Yet banks have some significant competitive advantages that should position them to be far greater rivals than they are for these fringe providers. Banks alone have access to the payments system. They alone can hold transaction balances. They alone have deposit insurance coverage and access to the discount window. They alone are eligible to accept direct deposits. And they alone can offer banking services in conjunction with a variety of other services.

Add the many intangible benefits that banking relationships offer-- institutional advice and support, opportunities to build formal credit histories, and so on --- and you have a powerful set of reasons for banks to go after this business.

Of course, banks have enjoyed these advantages for years. Yet that hasn't prevented the estrangement of millions of Americans from the banking system. So the problem becomes one of ensuring that these advantages are understood by -- and made accessible to -- the individuals who would benefit from them.

The answer -- or part of it -- lies in something that is relatively new. I have long suggested that technology is an essential component of any viable strategy to extend the benefits of banking to the underbanked. I'm pleased to see that this view is beginning to take hold both among consumer advocates and among bankers themselves.

For example, last week a large national bank introduced a no-frills, "checkless" account that gives customers unlimited access to their funds through the bank's ATM network and eliminates the need to cash payroll checks.

This is one of those cases where government has led effectively by example. Consider the case of the ETA -- the Electronic Transfer Account -- that was developed by the Treasury Department when I was Under Secretary for Domestic Finance. ETAs are now being offered by hundreds of banks around the country -- including the six largest -- and have already drawn thousands of previously unbanked Americans into the banking system. More than 26,000 ETA accounts have been opened since the program began. To be sure, that's not an earth-shaking number. But it's a good start.

When we developed the ETA model, we had two principal goals in mind. First, it was designed to facilitate the transition -- mandated by law -- from paper to electronic delivery of Federal payments. Obviously, people can't receive electronic payments unless they have a bank account to do so.

The transition to electronic direct deposit was expected to save the government tens of millions of dollars -- as indeed it has done. Over the past decade, in fact, the government has saved more than \$2 billion by converting from paper checks to electronic payments.

But we also hoped and expected that the ETA -- a cheap, no-frills, utilitarian account -- would serve as a model for financial institutions seeking to establish or expand a foothold in the unbanked market.

Taking advantage of their ability to batch remittances, some banks are beginning to develop electronic accounts that combine direct deposit with debit card access and bill payment options. Such accounts are proving attractive to individuals accustomed to spending several dollars per month for money orders or electronic bill payments. Because such accounts largely dispense with paper, they can be offered at low cost -- lower in many cases than the customer would pay for the same set of services at a nonbank outlet.

But it's not only their competitive pricing that makes such accounts attractive to those who would otherwise be dealing with a nonbank. They provide a safe and cheap repository for funds. No more lost or stolen checks; no more hassles to cash a payment check; no more risk of carrying around a wad of cash and becoming a target for predators. The paycheck goes directly into the bank account, and with a debit card the customer can draw funds as she needs them, at an ATM or at point of sale. And if the bank has been innovative, the customer may even be able to make basic payments from the account by electronic transfer, either without cost or at a cost far less than a money order.

For the bank there are also important benefits: no processing of paper checks; no risk of overdrafts; the opportunity to establish new customer relationships that may be developed into something more.

For example, if such customers need small loans, for a car or appliance purchases -- or even payday-type credit -- a direct deposit account, which already enjoys cost advantages over a paper-based account, offers the possibility of prearranged electronic debits, significantly reducing not only the processing cost, but the bank's risk of default, as well. And they are favorably considered in a bank's CRA evaluation.

Banks are also taking the initiative to address the short-term borrowing needs of their customers, and here again, technology can be a big part of the solution.

In one noteworthy development, a prominent national bank has begun to offer a product that provides access to low-cost cash advances for direct deposit customers. Funds can be obtained directly from the bank's ATM network or by speaking to a telephone agent who will transfer the funds into the customer's account. The bank has also automated the underwriting process, cutting costs for both parties to the transaction and virtually eliminating the waiting period for established customers -- a matter of considerable importance, as we've seen, for the emergency borrower.

Let me commend those of you who have added such innovative products to your offerings -- and challenge those of you who haven't done so to think of even better ways of delivering these services.

But despite what Emerson said, it's not enough to build a better mousetrap; the world has to know about it before anyone will beat a path to your door. You have to give people a reason to break old patterns and habits; you have to let them know that they do have better options. And that brings me back to the importance of financial literacy.

A quick cautionary note is in order here. There can be a fine line between education and marketing, and it's a line that should be heeded in an educational setting. But this is an instance in which the facts -- plain and uninflated -- are on your side. Bank products and services -- and the value of banking relationships -- should sell themselves to informed consumers.

Coupled with innovative, technology-based approaches to product delivery, I believe that educational outreach holds tremendous potential for reducing the ranks of the underbanked. The potential rewards -- for the economy and the banking system -- certainly make the effort worthwhile.

It's not an effort we expect the industry to undertake on its own, of course. As with technology, we in government are leading by example, and we're working in partnership with others to promote the cause of financial literacy. I'm proud to report that the Treasury Department and its bureaus -- especially the OCC -- have been extremely active in this effort.

OCC has published resource guides and advisories to banks and others in search of ideas about where to obtain financial education and about how to help. We participate in the National Forum to Promote Low-Income Savings, an effort directed by the Consumer Federation of America to increase the savings rate in local communities. The OCC is one of only four Federal agencies to have a formal partnership with the National Academy Foundation, a nonprofit organization dedicated to preparing young people for careers in the fields of finance, travel and tourism, and information technology.

And of course, we work closely with banks, individually and through organizations like CBA, encouraging them to expand the scope and quality of their financial literacy activities.

Indeed, I believe it says something about our success in regard to numbers -- numbers of banks participating and number of clients served, for example -- that we're turning more to the question of program quality. Success in the financial literacy area cannot be measured simply in terms of raw statistics. We have to develop qualitative measures of our programs' effectiveness. We must set standards and measure outcomes where appropriate. I'm encouraged to see that many banks are engaging their community-based partners and other independent parties to evaluate the effectiveness of their programs.

Let me close by once again commending CBA and the banking industry for your important work in reaching out to the unbanked, the underbanked, and those in need of more and better information about their financial options. But we can't stop here, because the truth is that your work -- our work -- has just begun. There are millions more who remain outside the banking system -- and outside the mainstream of our economy. We will never achieve our full potential as a nation as long as that's the case. And the banking industry will miss out on opportunities to serve, to grow, and to profit.

Reach out because it is the right thing to do; reach out because the American people need you. But do it most of all because it's good business. After all, doing good by doing well is the American way.