

Remarks by
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Comptroller of the Currency
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In his 1962 State of the Union address, President Kennedy declared that “a strong America depends on its cities -- America’s glory. And sometimes,” he added, “America’s shame.” They were words that stirred the nation’s conscience -- and then stirred it to action. And in the years since then, organizations like NCRC, with leaders like John Taylor, have worked to harness the energies and the resources of our people, so that our cities -- and our neglected rural areas -- might shine once more.

Since then, we’ve turned many corners, and it’s gratifying to see NCRC’s approach to building partnerships starting to pay off in such a big way. As NCRC research shows, the trickle of community reinvestment dollars of the early years has turned into a veritable flood -- nearly \$900 billion committed by banks in the last two years alone.

Unfortunately, while these numbers are big, the need is bigger -- and growing. Despite our progress in reversing the erosion of our housing stock, there’s still not enough decent, affordable housing to go around. Despite the addition of thousands of small businesses in recent years, too many of our communities are still plagued by joblessness and despair. For too many of our nation’s children, unsafe streets, dysfunctional schools, and inadequate recreational and medical facilities are still the norm.

History has shown us again and again that where conditions of financial stress exist, there will always be predators -- those who charge exorbitant prices to the most vulnerable members of society for services that the more affluent receive for less.

The phenomenon of predatory lending is not new. Usurers have always been with us. But according to a recent report by the Woodstock Institute, predatory lending in secondary mortgages and home equity products -- overwhelmingly by nonbank finance companies -- threatens to erase progress we've made in redeveloping our communities. It's a growing problem with national implications.

Ironically, the progress we've made in community development is one reason predatory lending currently looms so large. The increased availability of housing finance since the early 1990s has enabled literally hundreds of thousands of low- and moderate-income Americans to start building wealth as homeowners. That makes them tempting targets for predators, who exploit the likelihood that new homeowners will occasionally be short of cash and financial sophistication, and ripe for a high-cost second mortgage. All too often, unfortunate homeowners wind up with a loan they can't afford. All too often, they find themselves on the road from "American Dream to Worst Nightmare," as the Woodstock Institute put it -- a road that ends in foreclosure. And when that occurs, it's not just the ousted homeowner who's hurt: property values decline and investments -- by individuals and financial institutions -- suffer. The whole community feels the effects.

I share the concerns that have been raised about predatory lending. No one can condone such practices. That's why, where we have credible evidence that a national bank is engaged in predatory practices, we will focus on the remedies that are within our power to invoke to address the problem.

For example, in the course of our fair lending exams, we look for pricing differences based on race or other prohibited bases. Where possible violations are indicated, we will examine for marketing, targeting, or steering of consumers to high-cost products on a discriminatory basis. If we find discrimination, we will make a referral to the Department of Justice for enforcement under fair lending laws. To heighten our examiners' awareness of the fact that a predatory lending environment presents a high level of risk for discrimination, we will be issuing an advisory to examiners that instructs them to be on the alert for patterns of predatory lending so that we can follow up appropriately through the examination process.

At the same time, while we can insist on scrupulous observance of such laws as Truth in Lending, much of what we are seeing in this area is within the boundaries of existing law. For example, Congress enacted the Home Ownership and Equity Protection Act in 1994 to prevent predatory lending practices targeted at vulnerable consumers. But, despite this law and the Federal Reserve's regulatory implementation of it to date, we've seen predatory lending practices continue and even spread.

Furthermore, it's been noted that some national banks are "exporting" high lending rates authorized by their home jurisdictions into states whose laws are more restrictive, and we have been urged to put an end to this. But this is a well-established power granted to, and employed by, both national and state banks and thrifts.

Nonetheless, we continue to explore -- both on our own and on an interagency basis -- whether there are areas where we can take effective action. For example, while we don't have the power to promulgate regulations defining unfair and deceptive practices for banks -- that authority resides solely in the Federal Reserve -- we are exploring whether we can initiate cease-and-desist actions against banks on a case-by-case basis, challenging specific conduct that we might be able to characterize as unfair and deceptive. While formal rulemaking may be a more comprehensive way of dealing with widespread abuses, we may be able to make progress on an individual case basis. Further, while non-discriminatory steering of customers to higher priced loans may not be illegal per se, it can still raise warning signs and concerns. In view of this, we recently refused to approve a national bank's acquisition of a large sub-prime lender without a commitment to ensure that the price at which a loan would be offered to an applicant would not be affected by the delivery channel the applicant used to seek credit.

Quite apart from such remedies, it's important that, in attacking this problem, we get at the roots. We must target not just the predators themselves, but the conditions that allow them to flourish. That means encouraging responsible competition in the same markets in which the predators operate. It means helping low- and moderate-income Americans to gain a better understanding of their financial obligations and options. We need to focus on education and

access. And that brings me to what brought you here for this conference -- the question of how to increase wealth in our communities by improving access to financial services.

We have to be careful about how we define our terms. Strictly speaking, there's no shortage of financial services in many of our low- and moderate-income neighborhoods today. Check cashers, pawn shops, and payday lenders are often plentiful, and despite their high costs, they are likely to remain part of the financial services landscape in low- and moderate-income communities for a long time to come -- unless they are displaced by mainstream providers.

It's clear that mainstream financial institutions -- banks, thrifts, credit unions and their offshoots -- offer their customers important advantages, generally including the provision of transaction services at prices below those of fringe providers. Cost is obviously significant in this context, for the basic strategy for building personal wealth is to keep more of what you earn, and that's tough to do when you're handing over a substantial fraction of the face value of a paycheck just to cash it. Over a period of time, the difference of even a few dollars a week can make a big difference to people who are tired of living at the margins.

Even more important from a wealth-building standpoint are the financial services that fringe providers can't offer at all, such as safe repositories for funds, and cheap and efficient payment services. For a small business loan, a loan for education or job training, or an affordable mortgage, only a bank or similar institution will suffice.

And the intangible benefits of dealing with a mainstream financial institution may be as important as the tangible ones. Banks give customers the opportunity to build the formal credit history and long-term financial relationships that are important to full participation in mainstream economic life.

The advantages of real banking should be obvious. Yet some 13 million American families do not have an account at an insured depository institution. There are a lot of reasons for this, but a primary one is cost. A conventional checking account is simply too expensive for the needs of a great many people.

A substantial number of unbanked Americans may find that there's simply no bank to do business with. For example, in New York City last year, only 2.5 percent of all bank branches were located in low-income areas that housed more than 6 percent of the city's total households. In those areas, check-cashing outlets outnumbered bank branches by more than two to one. Some of the city's poorest neighborhoods are without any banking facilities -- despite the fact that local economic activity may be quite vibrant.

But even bringing back conventional financial institutions won't necessarily solve this problem. Indeed, a fair number of Americans without banking relationships do have one or more banks conveniently at hand, but choose to conduct their financial business elsewhere. Other things keep them away. There are concerns about confidentiality and, especially in communities where English is not the dominant language, the ability to communicate with bank personnel. The largest group of the unbanked, however, report that banks don't offer the services they need

and that, when those services are available, banks charge too much for them -- a perception that's hard to reconcile with the reality of the exorbitant fees fringe providers generally charge.

So it's clear that an effective response to the problem of the unbanked has to be multifaceted. First, we have to encourage banks to get back into low- and moderate-income neighborhoods. Over the years, there's been a significant turnover of banks in some of these neighborhoods. Some pulled out because locations were unprofitable. Others were concerned about security. And some ultimately decided that service to the unbanked was not consistent with the upscale image they were seeking to cultivate.

What each of these banks found was that simply being in these communities was not enough. Success in low- and moderate-income markets takes patience and understanding, and it takes a well-conceived plan to tailor services to the specific needs of low- and moderate-income customers.

However, success has come to bankers who follow some basic guidelines.

First, as I've said, it's crucial that bankers provide a range of products and services tailored to the needs of the communities they serve. That usually includes a means of getting cash, payment services, passbook savings accounts, consumer credit, and mortgages.

Second, it requires banks to take full advantage of technology in delivering services. We all know that the old-style paper-based checking account, with all of the opportunities for

overdrafts that it offers, is expensive for both banks and customers. Yet direct deposit coupled with debit card and point-of-sale access can be offered at a small fraction of the cost. Such electronic-based accounts can also be structured to provide extremely efficient payment services, and they can be offered with savings or investment features that will help build wealth.

Third, success requires commitment by senior management to the market and the community. It demands a high level of sensitivity in staffing and operating the facility, and a willingness to alter bank culture to conform to the values and habits of the community. Organized outreach, education and financial literacy programs are often an important part of the successful bank marketing plan.

Finally, success in these markets requires resolute pursuit of the long-term goal of developing or migrating marginal customers to full service status. The customer with a regular source of income who opens a direct deposit, electronic transfer account, can be an excellent customer for a conventional small loan -- at a far cheaper cost than the predatory payday loans offered by fringe providers.

Banks that have done these things right have been amply rewarded for it. They've attracted a larger and loyal customer base, increased opportunities to provide other banking products, and generated a reliable source of stable deposits. Some are making money now; all expect to do so in the future. And they're making a real difference in their communities.

Bank regulators obviously have a role to play in this process, and, as we look to the future, it's just as important that we, too, take an innovative approach to bringing the unbanked into the financial mainstream. We're exploring ways in which banks might be able to pool their resources to defray some of the associated start-up costs and ongoing marketing and operational expenses.

One possibility I find especially intriguing is the consortium bank, an institution chartered as a mainstream bank, owned and supported by large banks in the community. A consortium bank with a business plan tailored to the specific needs of an inner-city community may be able to bring services to areas that have otherwise been abandoned. We are giving detailed consideration to this idea.

It may be unrealistic to think that predatory lending can ever be fully eradicated. In all likelihood, there will always be some who fall victim to the unscrupulous. But while we cannot tolerate abuses, our focus must remain positive. Our goal is -- and must always be -- to provide practical alternatives that give rising Americans a better chance to gain control over their finances and to build wealth. Banks have always played an important part in that process, and they should play no less important a role in the future. I look forward to working with you to that end.