

Opening Remarks
By
Sheila C. Bair, Chairman,
Federal Deposit Insurance Corporation;
To
Affordable, Responsible Loans for Military:
Programs and Prototypes Conference;
Arlington, Virginia
December 6, 2006

Good morning, and welcome to our program today on affordable, responsible loans for military personnel and their families. Thank you for your interest in this topic and your support for our program. I would like to give special recognition to General Andrew Egeland, President of the Association of Military Banks of America, who has provided invaluable assistance in organizing this event. I would also like to recognize our other guests from the Department of Defense. In addition, I would like to extend a special welcome and thanks to our speakers, all of whom have put in an enormous amount of time and energy in preparing for this program today.

With this conference, we hope to address a serious problem - the pervasive need for more responsibly priced small-dollar loans. As we know from press reports, and the Department of Defense's (DoD) recently issued report on predatory lending, military personnel and their families are frequently turning to high-cost providers for their financial services needs. The adverse impact of costly credit on the military should not be underestimated. According to the DoD report, a recent study within the Navy shows the number of security revocations and denials for financial reasons increased from 212 in FY 2002 to 1,999 in FY 2005. The DoD report points to case studies collected from military installations showing that high interest loans, whether in the form of payday loans or unscrupulous automobile financing, can leave a service member with enormous debt, family problems, and difficulty maintaining personal readiness for active duty. Although high-cost, predatory loans are not the sole factor, they significantly contribute to these problems. All of us—regulators and members of the banking community—have a duty to help these individuals and their families develop alternative, affordable options so they can meet their credit needs. These alternative products could be used to address an immediate financial need or simply to help them regain their financial footing.

Given the need, it seems to me that this presents a perfect opportunity for banks to step in and offer more reasonably priced credit. Banks have the infrastructure and the imagination needed to create an array of affordable-lending services -- along with savings plans -- to meet the needs of military customers. As we will hear today, there are lenders that have found that this business has manageable risks and can be profitable, especially if the bank ties regular loan payments to a savings account so borrowers have an automatic mechanism to build a financial cushion. Banks that reach out to establish relationships with military consumers participating in fringe financial

services may be able to reap the rewards of cultivating new, full-service customers by building relationships that will strengthen as these individuals' economic circumstances improve.

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.

Indeed, this is the hoped-for outcome of today's discussions. To further our efforts, the FDIC released just yesterday for public comment, Affordable Small Loan Guidelines. The Guidelines explore several aspects of product development, including affordability and streamlined underwriting. We encourage banks to offer products with affordable, reasonable interest rates with no or low fees; payments that paydown the principal balance of the loan; and a savings component incorporated into the loan. In addition, institutions offering these loan products in a responsible manner may receive favorable consideration under the Community Reinvestment Act.

In addition to welcoming you today, I also have the honor of introducing this morning's keynote speaker, Congressman Barney Frank of Massachusetts, incoming Chairman of the House Financial Services Committee. Congressman Frank was first elected to Congress as the representative of the 4th District of Massachusetts in 1980. He was re-elected last month to serve his fourteenth term.

As a recognized leader in Congress on affordable housing, Congressman Frank has devoted much of his legislative work to finding ways to increase the availability of affordable housing to low- and moderate-income persons and to creatively address impediments to affordable housing. He has championed for protections against predatory lending practices and worked hard to encourage banks to reach out and creatively meet the credit needs of people who are not yet part of the financial mainstream.

Please join me in welcoming Congressman Barney Frank.

Last Updated 12/06/2006