Remarks of
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Good morning. I am pleased to be here today to welcome you to this symposium on banking the Latino market. I would first like to start by thanking Linda Koch for her kind introduction and the Illinois Bankers Association (IBA) for inviting me to speak here this morning. I would also like to commend IBA for their leadership in expanding financial access to the Latino community. This is the IBA's third annual symposium on this topic. I would like to recognize two individuals here today who have made substantial contributions in this area - Michael Frias, the FDIC's New Alliance Task Force (NATF) National Coordinator and its founder, and Manuel Orozco, Director of Remittances and Development at the Inter-American Dialogue.

Today I would like to speak to you about the importance of the growing Latino market in the U.S., Illinois, and the Chicago area and several issues relating to the Latino market, including expanding financial access to the unbanked, remittances, financial literacy, some significant implications of recently released Home Mortgage Disclosure Act (HMDA) data, and minority banking.

Banking Opportunity in the Latino Market

As you know, within the past few years, Latinos have become the largest minority group in the U.S. The U.S. Census recently reported that Latinos accounted for almost half of the nation's population growth in the year ending July 1, 2005, and the U.S. Latino population is expected to triple in size between 2000 and 2050.1 As the Latino population grows, Latino-owned businesses grow with it, averaging three times the national growth rate for all businesses between 1997 and 2002.2

As I'm sure you are aware, Latino population growth has been even more dramatic here in the Illinois region than in the nation as a whole. As of 2000, Latinos accounted for over 12 percent of the state's population and 26 percent of the population of the city of Chicago.3 A 2004 FDIC study reported that Illinois is one of seven U.S. states with the highest concentration of Latinos.4

Clearly, the Latino market represents an enormous opportunity for all banks, particularly banks in the state of Illinois. Industry analysts have projected that more than half of all U.S. retail banking growth in financial services during the next two decades will originate from the growing Latino market. The rapidly growing Latino population will require financial products to meet their needs.

The 2004 FDIC study also reported that most banks are still in the early stages of developing their strategies for the Latino market. The study identified four key service

areas that can assist banks in targeting services to Latinos depending on where they are in their financial life cycle. These are: 1) pre-banking services such as financial literacy and remittances, 2) basic banking services such as checking and savings accounts, 3) advanced banking services, such as mortgage, personal, and business lending, and 4) affluent banking services, including higher margin products and services.

Economic Inclusion

While the opportunities are clear, they are not without challenges. Studies have indicated that a substantial portion of the U.S. population, particularly the Latino immigrant population, lacks access to the banking system and spends significantly more on financial transactions as a result. One recent study estimated that there are 28 million unbanked people in the U.S., and 45 million underserved people who lack adequate access to credit.5 These studies further report that a significant portion of the unbanked population is Latino. For example, another study revealed that 34 percent of U.S. born Hispanic Americans are unbanked, and that Mexican and other Latin American immigrants have the highest rates of being unbanked among all immigrants.6

Promoting fair and equal access to the financial mainstream is central to the FDIC's mission and one of our top priorities. Entering and becoming part of the financial mainstream is in many ways the starting point for economic citizenship in the U.S. Banking relationships provide individuals with the opportunity to save, borrow, invest, and build a credit record. It increases their participation in housing and credit markets which can promote stable neighborhoods and better living conditions.

The FDIC has been actively encouraging bank involvement in the provision of financial services to immigrant and unbanked populations through its New Alliance Task Force (NATF), a project started by our Chicago region. NATF was launched in 2003 by the FDIC as an initiative to move more remittances through the banking sector and promote the inclusion of immigrants into the financial mainstream.

Michael Frias will share more with you about these efforts this afternoon. NATF has successfully brought Latino immigrants into the financial mainstream by promoting financial education and outreach programs and innovative banking products. As of late 2005, NATF was composed of 65 members including 40 banks, government agencies, and nonprofit advocacy and community groups in the Chicago and Milwaukee areas. As a result of these efforts and programs, more than 10,000 people have participated in NATF financial education workshops and more than more than 157,000 new bank accounts have been opened in the areas where NATF operates, with more than $100 million in deposits.

Looking forward, the FDIC now plans to expand these efforts in a national campaign focused on the entire unbanked population in the U.S. through the organization of broad- based coalitions in each of the FDIC's six regions composed of banks, community organizations, foundations, educators, and local, state, and federal

agencies. Building on our experiences to date, the FDIC will seek to build partnerships among public, private, and non-profit organizations to bring the unbanked and underserved into the financial mainstream.

Remittances

Remittances play a critical role in providing immigrants access to mainstream financial services. Many immigrants to the U.S. traditionally have used remittances to send shares of their earnings to family members in their home countries. In recent years the level of interest in remittances has grown significantly. In a 2004 study, Sending Money Home: Remittances to Latin American from the US, the Inter-American Development Bank (IDB) found that nationwide over 60 percent of Latin American immigrants send remittances. On average, each immigrant sends $240 at a time, 12 times per year.7

Although these individual transactions are not large, taken together, remittances represent enormous capital flows, with the majority flowing to Latin American and the Caribbean. The IDB estimates that remittances sent to Latin American countries alone exceeded $53 billion in 2005.8 Illinois ranked fifth among U.S. states in remittances sent from the U.S. to Latin America in 2004, accounting for remittances totaling $1.5 billion.9

A GAO study published last November reported that Latino immigrants using remittances most often rely on money transfer operations or retail outlets rather than banks, even though banks offer some products at lower cost and offer the advantage of access to other financial services and products.10 Immigrants from less financially developed countries, such as those in Latin America and the Caribbean, tend to avoid banks for financial services such as remittances. This has been attributed to patterns of familiarity, convenience and trust with regard to money transfer operators.

As you know, immigrants tend not to rely on banks for remittances because of insufficient supply of transfer services, limited hours, language barriers, and inconvenient locations. Studies have also shown that people who send remittances tend to be relatively low-wage earners, with modest formal education and relatively little experience in dealing with this country's complex system of financial institutions. As such, they are particularly susceptible to unscrupulous business practices.

An example of the potential abusive practices related to remittances involves hidden fees and transaction costs. Back in February 2002 while I was on the Senate Banking Committee staff, Senator Paul Sarbanes, for whom I worked, chaired the first Congressional hearing devoted to the subject of remittances. At that hearing, Dr. Manuel Orozco, Director of Remittances and Development at the Inter-American Dialogue who will speak to you next, highlighted the tremendous growth in remittances to Latin America and pointed out that 15 to 20 percent -- $3-$4 billion --was being lost in fees and other transaction costs, fees that were often hidden from the remittance or misrepresented. The exchange rate conversion is often the mechanism for this practice.

The recent GAO study revealed that concerns about remittance fees and costs still exist. Remittance fees and transaction costs and related disclosures vary by provider, making cost comparison difficult and potentially exposing users to deceptive practices. Remittances are not subject to federal disclosure laws and state disclosure laws vary. In particular, there is no requirement that a remittance transfer provider disclose to the consumer the exchange rate fee that will be applied in the transaction. Without knowing the exchange rate fee that the company is charging, a consumer has little ability to gauge accurately the full cost of sending a remittance.

Banks have much to offer remittance users. Indeed, recently we have seen a number of our largest banks move actively into the remittance market. Banks tend to be the low cost providers of financial services. And unlike money transfer operations, banks offer immigrants financial inclusion and the broad range of benefits that flow from it.

Remittance services have been an important part of the FDIC's NATF initiative, particularly in this region. The NATF Bank Products and Services Working Group has encouraged banks to develop financial service products with remittance features as a strategy to reach the unbanked immigrant population. Community banks in the Chicago region, some of whom are here today, have taken the lead in offering remittance services and related products such as dual ATM cards or stored-value cards. We consider it a success that many of our NATF banks are now offering remittance products that allow immigrants to open bank accounts, avoid high-cost wire services and the associated fees and costs to send money to their families abroad.

In addition to the NATF initiative, the FDIC has been partnering with the Federal Reserve Bank of Atlanta to promote their affordable remittance service, Directo a México, a partnership between the Federal Reserve Banks and the Central Bank of Mexico to provide a fast and affordable way to transmit monies to Mexico. During 2005, the FDIC joined the FRB on a 16 city tour to showcase Directo a México to financial institutions. To date, 150 banks participate in the program.

Financial Literacy

Financial literacy can also play a key role in helping Latino immigrants navigate their way to the financial mainstream. Today's financial marketplace provides a dizzying array of complex financial choices and financial literacy is essential for the economic well- being of households. Even the well-informed consumer can be confused by the complexity of choices available in today's financial marketplace.

The FDIC's Money Smart financial education program provides the basics. The FDIC started Money Smart in 2001. It is a free program that primarily focuses on helping low- and moderate-income adults develop money management skills. It is designed to introduce consumers to mainstream banking and includes education on banking services, checking and savings accounts, credit cards and other consumer loans, and home mortgage loans. Financial literacy and Money Smart is also an important component of the FDIC's NATF initiative.

The FDIC offers the Money Smart materials in six different languages, including Spanish of course, through an extensive alliance of organizations, including financial institutions, non-profit organizations, and government agencies. Since its inception, almost a half million people have taken Money Smart classes and about 95,000 have established new banking relationships.

If your institution has an interest in learning more about our Money Smart program, I encourage you to contact the FDIC.

HMDA Data and Fair Lending

The FDIC is also committed to ensuring that the institutions under our supervision provide credit to all people in a fair and unbiased manner. A very important fair lending issue that has proven particularly challenging to assess through our compliance exams has been the impact of race and ethnicity on the credit terms received by borrowers.

A number of studies have been conducted using new Home Mortgage Disclosure Act ("HMDA") data that have revealed significant disparities in the incidence of higher priced loans across racial and ethnic groups. The new HMDA data includes pricing information on loans that are designated as "higher priced loans," defined as first lien loans with an APR-Treasury yield spread of greater than 3 percentage points or subordinate lien loans with an APR-Treasury yield spread greater than 5 percentage points.

The first of these studies was published by the Federal Reserve in September 2005. Based on 2004 data, it clearly indicated that certain minority groups, including Hispanic Whites and African Americans, are more likely to receive higher-priced mortgage loans than non-minority groups.11 The study attempted to explain these disparities by taking differences in income, loan amounts, and other borrower-specific HMDA information into consideration, but was not able to fully explain the differentials between racial groups. Numerous studies conducted by other organizations since then were also unable to fully account for the pricing disparities using data on borrower creditworthiness and other factors.12

About three weeks ago, an updated Federal Reserve study using 2005 HMDA data again revealed that Hispanic whites and African Americans are significantly more likely to receive higher priced loans than non-Hispanic whites.13 Relative to the earlier Federal Reserve study, it revealed a significant increase in the incidence of high priced loans as well as significantly larger disparities in the proportion of minorities receiving higher-priced loans compared to non-Hispanic whites. The study found that the incidence of higher priced conventional home purchase loans was 54.7 percent for blacks and 46.1 percent for Hispanic whites compared to 17.2 percent for non-Hispanic whites.

The researchers attempted to control for borrower-related factors but found that such factors accounted for only one-fifth of these differences. This evidence of even greater

disparities in the incidence of higher-priced loans across racial groups contained in the 2005 data further heightens concerns about lending practices in the pricing of credit.

The more recent Federal Reserve study also found that metropolitan areas with larger minority populations and higher unemployment rates are more likely to have higher incidence of higher price lending. Previous studies have also suggested that higher-priced, subprime lenders are more active in lower income, urban areas and that minority access to credit is dominated by higher cost lenders. This is an area that deserves careful attention and analysis since it raises questions about the availability of low-priced credit in minority neighborhoods and highlights the critical importance of access to insured financial institutions.
Indeed, a recent Brookings Institution study compared the prices paid by lower income families for a wide variety of consumer goods and found that lower income families tend to pay higher than average prices for all sorts of basic household necessities, including financial services such as home and car loans, check cashing, short term loans, and remittance services.14 The study revealed that the added costs incurred by lower income consumers are the result of higher real and perceived costs of doing business with lower income consumers, unscrupulous business practices, and lack of access to good market information. The study further suggests that dense concentrations of high-priced providers in lower income neighborhoods tend to limit the choices of lower income consumers. These are important findings with significant public policy implications for the financial services industry.

These results, taken together with the unbanked statistics I mentioned earlier, suggest that institutional or geographical lending patterns have emerged in prime and subprime markets that may be limiting the access of qualified minority borrowers, including obviously Hispanic borrowers, to lower-priced prime credit and contributing to fair lending as well as community reinvestment concerns. If such structural marketplace factors are in fact part of the problem, we need to conduct careful analysis and develop strategies to deal with these conditions so that all individuals can gain access to credit reflective of their actual credit histories.

Minority Bank Initiatives

Let me conclude by saying a few words about the FDIC's minority bank initiatives, which are particularly important to the Latino community. Latino-owned banks are the most rapidly growing minority bank segment, having grown in number from 28 to 44 banks from year-end 2000 to March of this year, a 57 percent increase. Latino-owned banks now account for almost a quarter of the 190 minority banks in the U.S.

Minority banks have long performed a vital role in the American financial system by serving the market needs of their local communities. While minority banks are small in number relative to the banking industry, they play an important role in serving the financial needs of growing populations of minorities including Latinos.

But minority banks face challenges. They must compete with larger financial institutions for both business and a talented work force. Due to their commitment to serve local communities and ethnic populations, some minority banks, particularly those that are smaller, may have difficulty diversifying geographical and credit risk exposures and avoiding concentration risk. Some minority institutions are also challenged with operating in an economically depressed market area, which can affect their asset quality, earnings, and capital performance. Minority banks also face the challenge of maintaining their minority identity and primary customer base while attempting to expand their products, services and overall market presence.

The FDIC has taken a number of actions to help minority banks confront their unique challenges. Our actions include coordinating regulators' efforts in support of minority banks, establishing national and regional coordinators to implement our policies to support minority banks, and providing technical assistance to minority banks. Every year, a member of our regional management team offers to meet with each FDIC-supervised minority bank to discuss issues of interest. After every FDIC examination of a minority bank, we offer to have staff members come back to the bank a few months later to provide technical assistance on any matters raised during the examination.

We also conduct extensive outreach to minority banks through regional forums which have played a key role in our efforts to foster better outreach and closer relationships with minority banks. This year we sponsored the first interagency nationwide minority bank conference in Miami. All of our efforts with respect to minority banks are described in a policy statement that is posted on the FDIC website. It discusses how we identify minority banks, participate in minority bank events, provide technical assistance, and work toward preserving the character of minority banks during the resolution process. If any of the institutions represented today has an interest in learning more about our minority bank program, please contact the FDIC.

Allow me to conclude by commending the Illinois Bankers Association for hosting this symposium. The FDIC is deeply committed to supporting the efforts of the U.S. banking industry to serve the entire population of our country and in my view this symposium is an important part of that effort. Thank you very much.

1. 1 U.S. Census Bureau, "Overview of Race and Hispanic Origin, Census 2000 Brief," March 2001; "Nation's Population One-Third Minority," May 10, 2006; and Census Bureau Projects Tripling of Hispanic and Asian Populations in 50 years; Non-Hispanic Whites May Drop to Half of Total Population," March 19, 2004.

2. U.S. Census Bureau, "Growth of Hispanic-Owned Businesses Triples the National Average," March 21, 2006.

3. U.S. Census Bureau, Census 2000.

4. "Banks are Still Sizing Up Opportunities in the Growing Hispanic Market," FDIC Outlook, Winter 2004.

5 "Private-Label Card Program From GE Offers 'Road to Credit' To Tap Greater Portion of Market," citing statistics from Bearing Point, The Wall Street Journal, July 7, 2006.

6 Sherrie L. Rhine, "A Closer Look at the Unbanked," May 22, 2006, and Sherrie L. Rhine and William H. Greene, "The Determinants of Being Unbanked for U.S. Immigrants," Journal of Consumer Affairs, summer 2006, Vol. 40 Issue 1, p. 21-40. Statistics cited refer to U.S. born African Americans and Hispanic Americans.

7 "Sending Money Home: Remittances to Latin America from the U.S., 2004," Inter-American Development Bank.

8 See http://www.iadb.org/mif/remittances/index.cfm.

9 See http://www.iadb.org/exr/remittances/ranking.cfm.

10 "International Remittances, Information on Products, Costs, and Information Disclosures," U.S. Government Accountability Office, November 2005.

11 Robert B. Avery, Glenn B. Canner and Robert E. Cook, "New Information Reported under HMDA and Its Application in Fair Lending Enforcement," Federal Reserve Bulletin, Summer 2005.

12 See, for example, Robert B. Avery, Ken P. Brevoort, and Glenn B. Canner, "Patterns of Higher-Priced Lending by Race and Ethnicity," unpublished manuscript, presented at the Conference on Bank Structure and Competition, Federal Reserve Bank of Chicago, May 2006; "The 2005 Fair Lending Disparities: Stubborn and Persistent II," National Community Reinvestment Coalition, May 2006; and Debbie Gruenstein Bocian, Keith S. Ernst, and Wei Li, "Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages," Center for Responsible Lending, May 31, 2006.

13 Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner, "Higher-Priced Home Lending and the 2005 HMDA data," Federal Reserve Bulletin, September 2006.

14 "From Poverty, Opportunity, Putting the Market to Work for Lower Income Families," The Brookings Institution Metropolitan Policy Program, 2006.