Remarks of
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Deposit Insurers, Consumer Protection, and the Unbanked

Good afternoon. Thank you for your kind introduction. I am very pleased to be here today at the Sixth Annual International Association of Deposit Insurers (IADI) Conference. Before I begin, I would like to thank Jean Pierre (JP) Sabourin, Ray LaBrosse, and Lai Wai Keen for their leadership in organizing this conference. I would also like to thank the staff at the Malaysia Deposit Insurance Corporation for their warm hospitality in welcoming us to their country.

I was asked to speak to you about the role of deposit insurers in consumer protection. At the FDIC, maintaining public confidence in the banking system by ensuring that people have a secure place to keep their savings is our core mission. An important dimension of maintaining public confidence is to ensure that bank customers are treated fairly and that access to the banking system is available to all.

I would like to begin with a brief introduction to the origin of the FDIC and its role in establishing public confidence in the U.S. banking system. I will then discuss how the FDIC promotes public confidence in the U.S. financial system by educating consumers about financial matters, responding to consumer complaints and concerns, promoting initiatives to expand access to the financial mainstream, and enforcing consumer protection laws.

The U.S. Deposit Insurance System

The first national deposit insurance system in the world was the FDIC. It was created in 1933 during the Great Depression to restore public confidence in the U.S. financial system and to protect small depositors. At the time of its creation, the U.S. was in the midst of the largest financial crisis in its history. During the first few months of 1933, 4,000 U.S. banks suspended operations. Bank runs had become commonplace and President Roosevelt was forced to impose a national banking holiday. The issue of the moment was how to restore confidence in the banking system.

When the FDIC was created, there was no national system of deposit insurance in the world. President Roosevelt actually opposed its creation, even threatened to veto the legislation that was to create the FDIC. He was concerned about the moral hazard that can occur when protection extended to depositors makes them less diligent in the selection and monitoring of their banks, and makes banks less careful in their lending practices. Banking industry groups also opposed the FDIC's creation because they were concerned about the premiums their members might have to pay.

But the American public demanded a system of deposit insurance that would provide a safe place for people to put their money. The public had experienced widespread bank runs and did not want to have to experience that again. Broad public support overcame the obstacles to the creation of the FDIC.

Without a doubt, the FDIC helped restore public confidence in the U.S. financial system. In 1934, the year after the FDIC was created, only nine banks failed compared to 4,000 bank closures during the nine months prior to its creation. Deposit insurance effectively ended bank runs in the U.S. The FDIC is widely viewed as one of the most successful legacies of that era, and remains highly relevant to the challenges facing the U.S. financial system today.

I would like to focus on four ways that the FDIC continues to promote confidence and consumer protection. First, the FDIC educates consumers about financial matters; second, the FDIC addresses the financial concerns and questions of consumers, third, the FDIC works with consumers and banks to expand access to the financial mainstream; and fourth, the FDIC, in its role as bank supervisor of more than 5,000 institutions, has specific responsibilities related to the enforcement of consumer protection laws.

Financial Education

Consumers in the U.S. today are overwhelmed with the complexity of the financial products available to them, from mutual funds to nontraditional mortgage products, to credit cards, to subprime mortgages.

Increased knowledge on the part of consumers is a significant way to deal with these issues. Teaching people about how money works and helping them understand how to utilize banks are key goals of the FDIC's financial literacy and economic inclusion efforts.

The FDIC has provided financial education to more than 900,000 consumers since 2001 through our Money Smart program. Money Smart financial training covers the basics of checking, saving, budgeting, and credit. Money Smart has been translated into five foreign languages -- Spanish, Chinese, Korean, Vietnamese and Russian -- and we have received requests for the Money Smart curriculum from numerous foreign countries.

A study of Money Smart that the FDIC released this summer revealed that financial education can have a positive impact on changing financial behavior. The study found that after taking the Money Smart training, people save more, spend less, pay their bills on time, and comparison shop for services.

We are now expanding the FDIC's financial education efforts to reach broader audiences, including high school students. A number of U.S. school systems and states have already integrated Money Smart into their educational programs. Incorporating financial literacy in elementary and secondary education is a key objective of the FDIC.

Addressing Consumer Complaints, Questions, and Concerns

The FDIC frequently responds to consumer complaints, questions, and concerns arising from financial rules and regulations, deposit insurance coverage, natural disasters, and financial institution failures.

The FDIC has many ways to address consumer questions and concerns. These include our call centers, our website, and the FDIC's array of consumer publications. In addition, the FDIC has specific programs designed to address consumer complaints and questions, including our Consumer Response Center (CRC), which has responsibility for investigating consumer complaints and responding to consumer inquiries about consumer laws and regulations and banking practices, and our Deposit Insurance Outreach Program, which promotes public understanding of the FDIC's deposit insurance system and the rules for FDIC insurance coverage.

The FDIC's Consumer Response Center (CRC) investigates all types of consumer complaints about FDIC supervised institutions, answers questions about consumer protection laws and banking practices, and conducts outreach activities to educate consumers. It also supports the FDIC's supervision and compliance examination programs by investigating complaints and analyzing complaint information and data.

The FDIC's Deposit Insurance Outreach Section helps the public understand the federal deposit insurance system and the rules for FDIC insurance coverage. Last year the FDIC implemented the Deposit Insurance Reform Act of 2006. As part of this reform act, Congress permitted the FDIC to expand deposit insurance coverage for deposits in retirement accounts up to $250,000. This was a significant change in our deposit insurance rules, and our Deposit Insurance Outreach Section had a busy year informing bankers and depositors about the changes through a variety of media.

Let me give you an additional example of how the FDIC maintains public confidence by ensuring that the concerns of consumers are addressed quickly.

In the aftermath of Hurricane Katrina two years ago, the largest natural disaster in U.S. history, the operations of 280 financial institutions in the U.S. Gulf Coast region were adversely affected. Financial institution facilities were destroyed, communication and data processing capabilities were disrupted, and financial institution employees saw their homes destroyed or inundated by flood waters.

Immediately after the storms, the FDIC and the other state and federal regulatory agencies committed to doing everything possible to preserve public confidence in the financial system, to restore essential financial services, and help banks get back into operation.

The FDIC immediately established a 24/7 hotline capable of handling any question from any bank depositor concerned about the impact of Hurricane Katrina. Within a matter of hours, the FDIC had 350 employee volunteers to take the calls. This worked for about a week, when call volume started to increase significantly. At that point, the FDIC engaged a contractor to handle most calls, supplemented by subject matter experts across the country to help with technical questions and to handle overflow volume.

In the case of a failed institution the FDIC moves quickly to close the institution and if possible reopen it the next day so that there is no interruption of service. Our staff will also meet with local community leaders and, if necessary, host local meetings with the public to explain what has been done.

A principal concern of the FDIC in its resolution and disposition activities has been to minimize any adverse effects on the economic stability and well-being of the local community and beyond. Since the inception of the FDIC, no depositor has ever experienced a loss of insured deposits at an FDIC-insured institution due to its failure.

Promoting Economic Inclusion

The issue of economic inclusion and access to the financial mainstream is a top priority for the FDIC. We don't know exactly what portion of the U.S. population is unbanked and underbanked, but we do know that it is substantial. One recent study estimated that there are 28 million unbanked people in the U.S. and another 45 million underserved who lack adequate access to credit. The Federal Reserve has estimated that up to 10 percent of American families are unbanked. We also know that in the U.S., a disproportionate share of the unbanked and underbanked are minorities. Studies have found that 46 percent of African Americans and 34 percent of Hispanic Americans do not have an account at an insured bank or thrift.

The FDIC has a number of programs underway designed to promote economic inclusion and encourage banks to offer lower cost services and alternatives to high-cost payday loans.

Our Chairman, Sheila Bair, has set up a new FDIC advisory committee — the Advisory Committee on Economic Inclusion -- to explore in depth ways of bringing the unbanked and underbanked into the financial mainstream. The Committee includes bankers, regulators, consumer advocates, and academics. It has meet several times over the last year, focusing on affordable, small-dollar loans as alternatives to high-cost payday lenders, subprime mortgage lending, and remittances.

The FDIC is also encouraging banks to use guidelines proposed last year by the FDIC to develop low-cost, small dollar loans coupled with savings vehicles as alternatives to payday loans. We have a pilot program underway with about 50 institutions to show that this is a business model that can work.

Another effort is the Alliance for Economic Inclusion (AEI), the FDIC's national initiative to form a network of local coalitions charged with helping underserved populations in nine markets across the United States. The goal of AEI is to expand financial access and increase market competition and to do so in a way that delivers measurable results.

In each of these markets, AEI is organizing coalitions of local banks, community groups, state and local officials, and developing strategies to expand economic inclusion. In each area, we have identified target populations and obstacles that prevent unbanked consumers from participating in the financial mainstream. The focus is on expanding basic retail financial services for underserved populations and to promote basic checking and savings accounts, low cost remittance products, small-dollar loan programs, and responsible mortgage lending based on the borrower's ability to pay.

Finally, the FDIC has a number of studies underway to examine how banks in the U.S. serve the unbanked and underbanked. We recently initiated a survey of financial institutions in the U.S. to identify and quantify their efforts to serve unbanked and underbanked populations and the obstacles and barriers they may face in attempting to do so. We hope to use the results to identify innovative practices employed by U.S. banks to reach out to the underserved.

Protecting Consumers

Apart from these issues, in its role as bank supervisor for over 5,000 institutions, the FDIC has broad consumer protection responsibilities. The FDIC enforces a variety of consumer protection laws through its compliance supervisory program.

Some of the major U.S. consumer protection laws the FDIC enforces include laws designed to promote fair lending and prevent discrimination in lending. These include the Equal Credit Opportunity Act and the Fair Housing Act. The FDIC also enforces a set of laws designed to protect consumers against unfair practices by requiring complete, clear, and uniform disclosure of the terms and conditions of finance and other protective measures. These include the Truth in Lending Act and the Truth in Savings Act. In addition, some of the greatest challenges we currently face in the area of consumer protection in the U.S. involve unfair and deceptive acts and practices. The FDIC protects consumers by enforcing section 5 of the Federal Trade Commission (FTC) Act, which prohibits such practices.

The FDIC is committed to protecting consumers and ensuring that the institutions under its supervision adhere to the letter and spirit of these consumer protection laws. When the FDIC finds practices that violate these laws, it takes action to ensure that the practices cease and that harm to consumers is remedied, using a range of supervisory and enforcement tools. For example, we have recently taken enforcement action against subprime credit card institutions for violations involving unfair and deceptive practices.

The FDIC also has responsibility for assigning ratings to all of the institutions it supervises under the Community Reinvestment Act (CRA). The purpose of CRA is to encourage banks to serve the credit needs of their entire communities, including low and moderate income neighborhoods. At the time CRA was enacted, there was a severe shortage of credit available to low and moderate income neighborhoods and concern about racial redlining and discrimination. CRA has proven to be an effective means to encourage banks to meet the diverse financial service needs of customers in the assessment areas in which they operate.

In conclusion, the FDIC has a basic mission – to promote public confidence in the U.S. banking system and to protect depositories. Financial education, consumer protection, and expanding access to the financial mainstream are important responsibilities through which the FDIC furthers that central mission.

Thank you very much.

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