Remarks of
Martin J. Gruenberg, Vice Chairman,
FDIC; Alliance for Economic Inclusion Kick-off
Los Angeles, California
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Good morning and thank you, Linda. I am very happy to be in Los Angeles this morning. I would like to thank all of you for taking the time to be with us to kick-off the FDIC's Alliance for Economic Inclusion (AEI) in the City of Los Angeles. We have an impressive list of speakers with us today, including Sophia Heller from the Los Angeles Office of the Mayor and Doug Kirkpatrick, Deputy Commissioner of the California State Banking Department. I would also like to recognize the FDIC staff that has worked so hard to pull together this event, including Bob Mooney, the FDIC's Acting Deputy Director for Compliance and Consumer Protection and our San Francisco Community Affairs staff: Lee Bowman, Linda Ortega, Bob Goff, Benjamin Hernandez, Adela Coronado, Lisa Kanemoto, Jacqui Gordon, and Joannie Lyman for their hard work in pulling together this event.

Economic Inclusion

I would like to begin by framing this issue in its broadest context. In many ways, access to an account at a federally-insured institution is the starting point for economic citizenship in the United States. Banks provide individuals with the opportunity to save, borrow, invest, and build a credit record. Individuals who use banks have a higher level of participation in consumer credit markets and, ultimately, housing markets. This, in turn, can promote stable neighborhoods and better living conditions.

But the fact is that there are millions of Americans who do not have a bank account. We don't know exactly what portion of the U.S. population is unbanked and underbanked, but we do know that it is substantial. A recent study has estimated that there are 28 million unbanked people in the U.S. and another 45 million underserved who lack adequate access to credit.1 The Federal Reserve has estimated that up to 10 percent of American families are unbanked.2 Moreover, a disproportionate share of minorities are unbanked – studies have shown that 46 percent of African Americans and 34 percent of Hispanic Americans do not have an account at a federally-insured financial institution.3

It used to be that we were concerned about the practice of "redlining" by financial institutions – drawing a red line around a neighborhood, often low and moderate-income minority neighborhoods, and denying access to credit. The issue now, however, no longer appears to be access to credit, but rather the cost and terms of credit. These same neighborhoods have now become targets for high cost financial services providers such as check cashers, payday lenders, wire transmitters, and subprime mortgage lenders. These companies used to be relatively small and unsophisticated, but today they have grown to be large, highly sophisticated and highly aggressive marketers of high cost financial services and products to these neighborhoods. They have come to dominate the financial services markets in these neighborhoods.

One indication of this development is in the most recent Home Mortgage Disclosure Act (HMDA) data released by the Federal Financial Institutions Financial Examination Council (FFIEC). A 2006 Federal Reserve study relying on HMDA data from 2005 found that 55 percent of blacks and 46 percent of Hispanics received so-called high cost mortgages, defined as mortgages with interest rates that exceeded the Treasury rate by 3 percentage points.4 This compared to only 17 percent for non-Hispanic whites. The study indicated that borrower related factors accounted for only one-fifth of this disparity.

Another indication is in a Brookings Institution study published last year that compared the prices paid by lower income families in urban neighborhoods for fifteen types of consumer goods, including eight financial services such as home and car loans, check cashing, payday loans, and remittance services.5 The study found that lower income families in these neighborhoods pay higher prices for all fifteen goods, including the eight financial services, than higher income families in suburban neighborhoods. There is an urgent need for greater competition in these markets, particularly from insured financial institutions – banks, thrifts, and credit unions – who may be able to offer borrowers a wider range of lower cost, mainstream banking products. This would be of great benefit to borrowers, and also offers significant potential market opportunities for the financial institutions.

The FDIC's Economic Inclusion Initiatives

This issue of economic inclusion, greater competition, and access to the financial mainstream is a top priority for the FDIC. Last year the Chairman of the FDIC, Sheila Bair, announced the formation of an Advisory Committee on Economic Inclusion to explore ways of bringing the unbanked into the financial mainstream. The members of the Committee include bankers, regulators, consumer advocates, and academics. Diana Taylor, the former New York State Superintendent of Banks, chairs the Committee. The first meeting took place on March 28th and focused on affordable, small-dollar loans as an alternative to high-cost payday lenders for underserved communities.

The formation of the Committee coincided with the FDIC's start-up of the Alliance for Economic Inclusion, the FDIC's new national initiative to form a network of local coalitions around the country charged with helping underserved communities gain access to federally insured institutions. AEI is focusing on unbanked and underserved populations in nine markets across the country. These markets, which were identified through extensive market and demographic research, include the Black Belt area of Alabama; Boston, Massachusetts; Chicago, Illinois; Austin and Houston, Texas; Kansas City, Missouri; the Gulf Coast areas of Louisiana and Mississippi; Wilmington, Delaware; Baltimore, Maryland; and here in Los Angeles, California.

In each of these markets, including Los Angeles, AEI is now organizing coalitions and developing strategies to expand economic inclusion in a measurable way. In each area, we have identified target populations and challenges and obstacles that prevent unbanked consumers from participating in the financial mainstream. We are working with banks, community organizations, academics, and local, state, and federal agencies. These coalitions are developing strategies to expand basic retail financial services for underserved populations in their areas, 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. The goal of AEI is to expand financial access and increase market competition and to do so in a way that delivers measurable results.

The Los Angeles Alliance for Economic Inclusion

The City of Los Angeles was a natural choice for the AEI. It is arguably the largest and most diverse metropolitan area in the nation. Like many such areas, the City of Los Angeles has challenges in terms of access to low cost financial products and services, particularly in lower income neighborhoods. Los Angeles County is reportedly among the highest ranking in the nation in terms of percentage of unbanked residents.

The Brookings study I mentioned earlier examined Los Angeles and found that high priced check cashers and alternative loan providers are very densely concentrated in its poor neighborhoods, far more so than in other areas of the city.6 The study found that a significant share of low income residents in Los Angeles utilize high-priced refund anticipation loans and are more likely than other households to get high-priced mortgages. The study also reported that the ratio of high cost financial service providers to residents in Los Angeles's low income neighborhoods was about one to 6,000 compared to about one to 156,000 in high income neighborhoods.

Another reason we selected the City of Los Angeles for the FDIC's AEI initiative is that we knew we could count on a high level of community engagement and leadership from the area's dynamic business and community organizations. Insured institutions in the Los Angeles area have been very active partnering with nonprofit and community groups to expand financial literacy. Los Angeles' financial institutions such as Union Bank, Citibank, US Bank, Hanmi Bank, as well as SCE Federal Credit Union, have played an integral role in supporting many community development initiatives in Los Angeles and will be participants in the AEI effort. Critical to this effort are the strategic partnerships with community-based organizations such as Broad Spectrum CDC and Centro Latino for Literacy. Other important partners include the United Way of Greater Los Angeles, the California Bankers' Association, the Los Angeles Unified School District, as well as our federal bank regulatory partners -- Federal Reserve, the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the Department of Housing and Urban Development (HUD). The Mayor's Office of Policy and Strategic Planning has also provided critical support for this entire effort.

Next Steps

The Los Angeles AEI is sponsoring three working groups focusing on Low-Income Residents, Youths, and New Americans. The goals of each of the working groups are to identify community needs and deliver measurable results in terms of expanded access to basic banking services and low cost banking products. For example, at lunch, Eloy Villafranca of the FDIC will talk to you about our small dollar loan program initiative, an alternative to payday loans that banks can offer on a profitable basis but at a far lower cost to the borrower.

The three working groups, Low-Income Residents, Youth, and New Americans, each have defined their target populations, developed mission statements, and a strategy for moving their respective missions forward. The America Saves-Los Angeles campaign will be tied into all three working group strategies to achieve the goals of reaching Los Angeles' low-income unbanked population, young people, and immigrant populations.

I strongly encourage all of you to take advantage of the opportunity to join the Alliance to bring unbanked Angelinos into the financial mainstream. It is our hope that working together through AEI we will be able to make a real difference. The FDIC is committed to this effort, and we look forward to the opportunity to work with all of you.

Thank you.

1 "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.

2 The Board of Governors of the Federal Reserve System, in its Survey of Consumer Finances, has reported that from 9 to 13 percent of U.S. households lack transaction accounts. See Federal Reserve Bulletins dated January 1997, January 2000, January 2001, and January 2004

3 Sherrie L. W. 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; and Sherrie L.W. Rhine, Katy Jacob, Yazmin Osaki, and Jennifer Tescher, "Cardholder Use of General Spending Prepaid Cards: A Closer Look at the Market," January 2007.

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

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

6 "From Poverty, Opportunity, Putting the Market to Work for Lower Income Families," The Brookings Institution Metropolitan Policy Program, 2006; http://www.brook.edu/metro/pubs/20060718_LosAngeles.pdf.

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