**Remarks by**
**Sheila C. Bair, Chairman,**
**Federal Deposit Insurance Corporation**
**to the**
**Greenlining Institute's 14th Annual Minority**
**Economic Development & Homeownership Conference**
**Los Angeles, Calif.**
**4/19/07**

Thank you very much. It's great to be here in Los Angeles.

As the head of the FDIC I wear two hats. One is the safety and soundness of our banking system. And the other is consumer protection.

Some might say you need a split personality to run the FDIC. But the fact is safety and soundness, and consumer protection are closely linked.

Banks can't make money without customers, and consumers can't live out their dreams, such as buying a home or saving for a child's college education, without affordable credit. It's a peaceful co-existence, a balancing act between two powerful forces that ultimately have a major impact on our communities as well as our national economy.

Today I'll be primarily wearing my consumer protector hat. I want to cover two areas: How we can include more people in the banking system, and then focus on the troubles borrowers are having with subprime mortgages.

## Economic Inclusion

As most of you know, I've made it a priority at the FDIC to explore ways that we can help more consumers enter the mainstream financial system. Too many people, especially those with lower incomes, rely on a mix of high cost non-bank financial service providers for their credit needs. And their numbers are growing.

Some estimates put the number at 40 million households.

The growth in the payday lending industry alone, for example, shows how many people are shunning banks for their credit needs.

By some estimates, payday loans topped $28 billion last year, and have doubled every year for the past five years. These numbers are really frightening.

Many borrowers who use payday loans have a checking account and a steady paycheck. So, why aren't they borrowing from their bankers?

Why isn't lower-priced credit more available in underserved neighborhoods, especially inner cities?

A Federal Reserve study says that higher-priced lenders may disproportionately work with … and market to … borrowers from minority neighborhoods. The study found that metropolitan areas with larger minority populations and higher unemployment rates are more likely to have greater amounts of higher-price lending.

Other studies found that subprime lenders are more active in lower income, urban areas and that minority access to credit is dominated by these higher-cost lenders.

High cost, predatory lending strips wealth and locks hardworking families into an endless cycle of debt and financial distress, undermining faith in our financial systems.

The FDIC will continue to act as a catalyst for productive partnerships between financial institutions and community development organizations ... organizations such as Greenlining ... to improve access to the banking system for low- and moderate-income, minority and other underserved communities.

**Let me tell you about one way that we're working on this.**

The Alliance for Economic Inclusion, or AEI, is our national initiative to create grass roots coalitions across the country to get more people into the financial mainstream.

The goal is to expand the availability of low-cost savings products, small loans with a savings feature, and other affordable services.

Why is this effort important? Low income consumers have a need. And for Main Street bankers, this is a business opportunity.

The 40 million under-banked people in the U.S. earn $1.1 trillion a year, (of which half don't have a banking relationship). All told, Americans spend at least $11 billion annually on alternative financial transactions.

- Here in L.A., estimates suggest that one in 10 of the city's 4 million residents is un-banked.
- 48 percent of the Mexican immigrant population in Los Angeles is under-banked, according to a poll by AEI's New Americans Committee.
- This is why we picked the City of Angels as one of nine cities to promote economic inclusion.

I met this morning with members of the new Los Angeles AEI, all of whom are here in this room ... some 35 accomplished individuals who are committed to promoting financial inclusion. They are leading local AEI's efforts in expanding new and affordable financial products and services for the underserved. And I thank them for their service.

They have a youth group that is encouraging elementary school students to start saving with as little as one dollar. The group is also pushing to integrate financial literacy into the elementary education curriculum.

Another early result of these efforts is the Los Angeles Small Business Loan Portal. This website is paid for by banks and enables local nonprofit small business development groups to match up the emerging small business loan needs of their clients with local banks that may be interested in meeting these needs. This is a wonderful innovation.

I believe banks can offer alternatives to high-cost and often predatory lending to low- and moderate-income people.

And it can be done profitably in a way that will enhance a bank's reputation and build long-term relationships with customers.

**The FDIC wants to be at the forefront of this effort.**

Last December, we released Affordable Small Loan Guidelines for public comment. These would cover several aspects of product development, including affordability, streamlined underwriting and built-in savings components.

In addition, at the first meeting of the FDIC's new Advisory Committee on Economic Inclusion, The Committee recommended a proposed pilot project to encourage banks to develop and offer small-dollar loans, through incentives including CRA credit and deposit funding.

## Subprime Lending

Let me now turn to subprime mortgage loans. It's become a front page story. It's on TV. And newspapers are even writing editorials about the problems facing subprime borrowers, and the brewing crisis.

Home ownership has great social value and it needs protecting. It contributes to neighborhood stability ... enables individuals and families to build wealth ... and traditionally has been a low-risk, stable investment representing the largest asset for many families.

While bank regulators have taken steps to prevent future problems in the subprime market, there is an urgent need to deal with hundreds of thousands of lower-income borrowers who are at risk of losing their homes in today's sinking housing market.

Many borrowers who took out loans in the last few years are having difficulty making payments as their loans are "reset" to higher payments after the initial two or three years of low "teaser" payments. Monthly payments are jumping by 30 percent or more.

According to one study, the interest rates for an estimated 1.1 million subprime loans will reset in 2007. 882,000 more will reset in 2008.

Fewer and fewer of these borrowers are able to refinance because of the deteriorating housing market. And many loans weren't based on borrowers' ability to pay when the payments reset.

There is no doubt that many subprime borrowers have benefited from the expanded access to mortgage credit. However, rather than building wealth, many borrowers are now struggling to keep their homes.

In previous years, many of these borrowers could have refinanced their mortgages (as many did do). Now, as home values have stagnated or even declined in many areas of the country, borrowers find themselves trapped in mortgages they cannot afford to pay.

Subprime borrowers are particularly at risk because they have very little financial cushion. On average, they spend over a third of their after-tax income on housing … roughly 20 percentage points more than prime borrowers spend. One quarter of adjustable mortgages originated in 2006 are now under water. In other words, borrowers owe more than their homes are worth.

- In California, mortgage delinquency rates are lower than for the nation as a whole, but significantly higher than a year ago
- For subprime mortgages, the past due rate was 10.9 percent, versus 13.3 percent nationally.
- New data released this week show that Riverside County (California) saw the biggest annual increase in foreclosures of any U.S. county through the first quarter of this year, rising by some 172 percent from a year ago.
- Los Angeles County was fourth, with an increase of 92 percent.
- Estimates show that four of the five U.S. cities with the largest increases in subprime delinquencies during 2006 were in California. (Sacramento, Merced, Modesto, and Stockton).

Non-bank, subprime lenders are also at risk. Some 50 of these have already gone out of business.

As for insured banks, the FDIC and the other federal regulators have addressed these risks through supervisory guidance, examinations and enforcement actions.

For example, we've issued more than a dozen formal and informal enforcement actions against FDIC-supervised institutions that failed to meet mortgage lending standards.

But the most visible problems are among independent mortgage lenders, which we don't regulate. And this is where coordinated action is needed most.

We believe that the entire mortgage industry ... regardless of whom the lender is ... should be subject to similar anti-predatory standards.

A national standard would give basic uniform protections for all borrowers. What we need are common sense rules that reinforce market discipline while preserving an adequate flow of capital to fund responsible home-lending.

There are two core aspects to developing a national standard. They are: One, an underwriting standard based on the ability to repay; and two, marketing standards that require early and clear disclosure of the full costs of adjustable rate and non-traditional loans. A national standard should also address abusive prepayment penalties and widespread use of "stated income" loans which mortgage brokers aggressively market to justify higher rates.

This would assure that in the future, both the borrower and the lender know exactly what they're agreeing to. But today, many borrowers are facing imminent financial danger as their loans reset.

In many cases, subprime loans have been securitized. Last year, 75 percent of the $600 billion in subprime loans were packaged and sold as securities.

This makes it harder to restructure troubled loans and keep borrowers in their homes. The terms of these securitizations can limit the ability of loan servicers to modify mortgages.

The FDIC is working with consumer groups, other regulators, and people from the mortgage industry to help these borrowers.

On Monday, we hosted an industry summit in Washington. Unanimous agreement was reached on the need to be flexible with distressed borrowers as these high cost loans are restructured and replaced with affordable mortgages.

And all agreed that keeping people in their homes is nearly always the best option. Borrowers want to stay in their homes, and investors don't want to be landlords.

To help move the process forward faster, we're urging early contact between troubled borrowers and their loan servicers. This increases the chances of working things out. Servicers tell me that when contact is made, 85 percent of troubled loans are successfully restructured.

On Tuesday, the FDIC and the other regulators officially encouraged banks to pursue workout arrangements that are more affordable, and based on the ability of borrowers to pay not just today, but for years to come.

The good news is that the market is moving in the right direction, based on what we heard at the summit.

Responsible industry leaders want to help. And many want to partner with consumer groups like Greenlining as they work with borrowers.

Lenders and Wall Street understood the risks associated in funding these mortgages. And now that the market has turned, we all need to roll up our sleeves, and work our way out of this. Deserving borrowers should have loans that they can repay. Foreclosure will be far more costly for borrowers, investors, and the housing market.

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Let me end by repeating my commitment to opening up the mainstream financial system to the millions of consumers who are on the outside looking in. America's is one of the richest economies on the planet. California's is the 7th largest on the planet.

There is no reason why all Americans ... and Californians ... can't enjoy more of the benefits that this wealth brings.

Every challenge has a solution—an opportunity if you will. I ask that Greenlining and all of you here today join the FDIC in helping the underserved. Doing so will lead to solutions that create opportunities and better lives for everyone.

Thank you very much.

Last Updated 4/20/2007