

Remarks by  
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Most of the papers you hear at academic conferences don't cause much of a ripple. Back in 1893, a young professor of history named Frederick Jackson Turner delivered one that did. His piece was entitled, "The Significance of the Frontier in American History," and it offered the theory that the challenge of subduing the North American continent had decisively shaped America's institutions and national character. But what made Turner's paper a public sensation was another point: that with the frontier era all but over, Americans in the 20th century would need to find new outlets for their restlessness and creative energies.

Turner's thesis made many Americans uneasy about the coming century. But it wasn't long before new frontiers beckoned: in science and technology, culture and the arts, and in improving the lot of all of our people and creating a more just society. These challenges have proved truly worthy of our best efforts as a nation. Working best when we've worked together, government, the private sector, and nonprofit organizations have made the 20th century a time of tremendous progress toward a rich life for all Americans.

It's also been a century of frontiers in finance. In the 1890s, commercial banks focused exclusively on commercial needs. Until the 1920s, consumer loans were virtually unheard of, and even then, few banks had any interest in making them. As late as the 1950s, there were still bankers who would make an auto loan only on condition that the purchaser turn over the keys and park the vehicle behind the bank until the loan was paid off.

One explanation for this behavior is that bankers did not have the information they needed to make better business decisions. Imbued with the 19th century notion that credit to ordinary people was somehow immoral or at least imprudent, convinced that middle-class borrowers would not know how to handle loans and that default rates would be high if they received them, most bankers chose to disregard consumers' legitimate credit needs.

But the few who were willing to take the chance were rewarded for their efforts. In fact, during the Great Depression, consumer loans outperformed commercial loans. Based on this experience and the information and insight into customer behavior gained through the process, consumer credit exploded, and has continued to expand to this day.

Today, banks make more home purchase loans, more auto loans, more installment loans, and more credit card loans than any other type of financial institution. They are responsible for the bulk of the small business lending and a major share of the agricultural lending in the country today. As a result, home ownership rates have never been higher; our small businesses have never been more vibrant and innovative; our farms have never been more productive; and our national economy has never been healthier. By reaching out to new customers, banks not only democratize credit; they democratize prosperity, making it more resilient and more stable. And they assure themselves a prosperous business future.

Still, many Americans have been left behind. After World War II, banks followed their most affluent customers from the inner cities to the suburbs. Those left behind were often people with whom bankers were no more comfortable than they had been with middle-class consumers during the earlier era. The decay of central cities, hastened by the lack of reinvestment capital, became a rationale for not

providing it. Again, misconceptions and information shortfalls interfered with the realization of market opportunities.

Then Congress stepped in. The Community Reinvestment Act of 1977 was an attempt to close the information gap between financial providers and consumers, to prime the pump, and to give market forces the push they needed to operate on their own in all communities. It was also a law that furthered the public policy of promoting home ownership, with all that implies for improving our standard of living and revitalizing our cities.

As you know, CRA was slow to produce results. But, in an effort that started five years ago, the CRA regulations were revised -- very largely, I'm proud to say, through the initiative of Comptroller Gene Ludwig and the OCC. The results since then speak for themselves. Between 1993 and 1998, according to NCR's own research, financial institutions have made CRA commitments and pledges totaling more than one trillion dollars. That represents 96 percent of all the CRA commitments made since the law was enacted. That means affordable housing, small business opportunities, retail and community revitalization projects, and a brighter future for tens of millions of Americans. Low- and moderate-income borrowers received 28 percent of all home purchase loans in 1997 -- up from 18 percent in 1990. And, through their experience under CRA in helping to rebuild communities, financial institutions have learned about new market opportunities that should enhance their bottom lines for years to come.

The expansion of consumer credit and the resurgence of community investment will clearly stand among the signal accomplishments of American finance in the 20th century -- accomplishments that attest to the power of the public, private, and nonprofit partnerships that made them possible.

To be sure, we still face serious challenges in both areas. CRA commitments and pledges, though impressively large, still fall short of the needs of our communities. And we're still learning about how best to use these funds to meet community needs. For example, we've learned that making affordable mortgage loans is just one piece of an effective overall strategy to help improve standards of living. But first-time homeowners often need homeowner education and counseling, both before and after the loan, to make the experience a success.

CRA itself is facing change. As it was originally conceived, CRA had a deliberately local focus. It sought to assure that local communities from which deposits were gathered were not ignored when those deposits were put out to work as loans. The emphasis was on serving the local community where the bank was situated.

Because of changes in the law and technology, as well as in the approach to delivering financial products, the original CRA concept of serving the localities contiguous to the bank's offices is under some strain. To a considerable degree, the elimination of geographic constraints on the ability of banks to compete, the evolution of credit card banks doing a nationwide business, and the growing use of the Internet are transforming the relevance of geography where banks are concerned. But these changes cannot and do not relieve depository institutions of the responsibility for meeting CRA obligations. The challenge we face today is how to define and enforce those obligations in the financial services marketplace of the 21st century. We are seriously studying this question. NCR has been in the vanguard of the thinking on this issue, and your contributions have been challenging and provocative. In response, we have decided to seek public comment on this and related questions, and we look forward to receiving broad input on how we can assure that CRA continues to be meaningful to the credit and financial service needs of all our communities as banking structure and financial services delivery continue to evolve.

These are important issues. But we face new challenges -- new frontiers -- that must also be addressed. High on the list is the plight of the unbanked and underbanked. According to the latest Survey of Consumer Finances, 13 percent of all Americans households, or 30 million adults, do not have a deposit account at a financial institution. Fifteen percent do not have a checking account. That represents 39 percent of all households with incomes under \$10,000, 30 percent of all nonwhite or Hispanic households, and 40 percent of all households whose head is not working. Moreover, 10 million individuals who regularly receive payments from the Federal government do not have bank accounts. In other words, the neediest and most vulnerable segments of our population -- the people who potentially have the most to gain through participation in the banking system -- are currently outside the system. That's simply unacceptable.

There was a time when the decision to operate in the cash economy and to dispense with banks could be defended as involving a reasonable trade-off of costs and benefits. Bank accounts have frequently been viewed by many low- and middle-income families as too costly. Bank branches are frequently fewer and farther between in the communities where they live. Nonbank check-cashers have often moved into such neighborhoods, offering services that are more expensive than those offered by banks. While using a bank account is self-evidently safer than walking around with cash, underbanked families -- especially those that live from paycheck to paycheck and spend almost everything they earn -- have learned to live without banks.

But the traditional economy is fast becoming yesterday's economy. Fewer and fewer transactions are paper transactions; increasingly, funds move electronically. And, as this technological transformation continues to work its way throughout our society, the inaccessibility of traditional depositories becomes increasingly burdensome and harder to justify. Already, it is virtually impossible to rent a car, buy a plane ticket, or even rent the latest Hollywood release from the video shop without a credit card. As the gap widens between those who are plugged in and those who are not, it will also widen between the haves and have-nots -- a possibility with serious ramifications for our country.

The point is that the costs of being unbanked are not borne exclusively by the unbanked themselves. There are consequences to society when some of its members are unable to participate in economic life to their full potential -- as when, for example, lack of credit history and a banking relationship makes it next to impossible to obtain a home mortgage or an education loan on reasonable terms.

Society also absorbs substantial added costs in conducting transactions with those for whom the traditional financial system is inaccessible. When Congress required that starting early this year all Federal payments other than tax refunds be made by electronic funds transfer, EFT 99 -- as it came to be known -- was expected to save millions of dollars for taxpayers, by reducing payment delivery costs to a few pennies per payment. EFT 99 raised the prospect of even further savings for the economy as private payers, following the lead of government, moved to electronic delivery. But the realization of those savings depended in large measure on recipients having access to a bank account that could accommodate electronic transfers, and, as I've said, conventional bank accounts have frequently been too expensive for many households.

In my former role as Under Secretary of the Treasury for Domestic Finance, I had the responsibility for overseeing the EFT 99 project. It quickly became clear to me that unless we could find a way to deliver electronic payments to those millions of families without bank accounts, there would be two very unfortunate consequences. First, we would lose the

opportunity to realize significant cost savings for taxpayers. And second, we would lose an opportunity to bring millions of unbanked families into the financial mainstream.

In response to these concerns, we developed the concept of the Electronic Transfer Account, or ETA, which we conceived of as a utilitarian, all-electronic account that would provide payments recipients with the safety, convenience, and efficiency of a low-cost bank account. While we at Treasury designed the specifications for the ETA, after extensive outreach with all interested parties, we left the option to the banks to decide whether to offer the account.

As proposed, ETAs would accept only electronic Federal payments; they would be subject to a monthly price ceiling; they would allow at least four free cash withdrawals per month and unlimited point-of-sale transactions; they would require no minimum balance; and would provide a monthly printed statement. The public comment period for the ETA proposal closed in mid-January, and the Treasury Department is now evaluating the comments received. I understand that the Department expects that the final ETA account features will be released later this spring.

The proposed ETA will, I believe, advance the process of bridge-building between banks and previously unbanked recipients of Federal payments. It is my hope that all depository institutions will see the benefit of offering ETAs -- and one of your important challenges is to bring those benefits to their attention. I urge you to make the ETA an item on your agenda in your discussions with banks about how they can better serve their communities.

But let me emphasize that the ETA should be viewed as an interim measure only -- a stepping stone, if you will, to a variety of more full service banking relationships. It is my hope that as electronic delivery becomes more widely accepted, banks will develop their own low-cost products, adding more and more useful features -- and competing to attract the business of those millions of families who need banking services but have remained outside the system.

That will take time. But it will also take more. Information and education are critical to correcting weaknesses in access to traditional payments systems-- just as they were critical in our previous efforts in the consumer credit and community reinvestment arenas. The more financial providers actually know about their potential customers in advance, the better able -- and more interested -- they'll be in tailoring products and practices that will draw people into the system. And educating the currently unbanked about the advantages of dealing with financial institutions -- and the responsibilities that come with it -- can help overcome the prejudice and misconceptions that have been major barriers to their participation in the past.

This is where NCRC and we at the OCC have important roles to play. For more than a year now, the OCC has been engaged in a comprehensive project to learn more about the financial services needs of those currently outside the banking system, so that we can help develop effective responses. Along with industry groups, we have sponsored forums on barriers to more inclusive banking, and have disseminated guidance on best practices across the financial services industry. And we are in the latter phases of a pioneering empirical study that has surveyed 2,000 people in low- and moderate-income neighborhoods in New York City and Los Angeles County to learn more about the financial activities of the unbanked, the costs they incur, their attitudes toward banks, and any

prior experiences with banks. From this survey, we hope to better understand obstacles to participation in the banking system, at least in these two major urban areas. Once these data are fully analyzed, we will report them to the public, hopefully later this year.

NCRC and its network of community organizations have been leaders in grass-roots efforts to promote financial literacy -- on your own and, for many of you, as part of the Financial Services Education Coalition. It was a recognition of the effectiveness of your community-based approach to financial education that NCRC was selected to lead the EFT 99 public education campaign in the South and Midwest. Educating consumers about the benefits of becoming participants in the financial system -- and the rising costs of not participating -- is vitally important in achieving our nation's economic and social goals, and, over a long period of time, no one has done it better than those represented here this morning. I commend you for your efforts in this area, to which I know you will continue to apply your customary dedication, sensitivity, and skill.

I began my time with you this morning by evoking our country's spirit at the dawn of this century. Americans of that era conquered their fears -- and new frontiers -- by forging partnerships to bring the American promise within reach for millions. Today, with the next century almost at hand, we have the chance to advance opportunity still further by advancing the frontiers of access to financial services. Through the same committed partnerships that have brought us success to date, I believe we will enjoy still greater success in the future.

Thank you.