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Good morning. I am happy to be here today to participate in CFSI's Second Annual Underbanked Financial Services Forum. I want to thank Jennifer Tescher for the invitation to join you today, and a special thank you to Ellen Seidman for her gracious introduction.

Ellen, as you well know, is one of my predecessors as Director of the Office of Thrift Supervision. It was my pleasure to work with Ellen a few years back as a fellow Director of the FDIC. We also served on the FDIC Audit Committee together, and I was continually impressed with Ellen's knowledge of the details. She was always well prepared, no matter what was on the agenda. I thought she must have never slept, because there was, and is, always so much to absorb.

And speaking of Ellen as a former Director of OTS, we are the only federal banking agency that does not have a wall of photos displaying the former Directors of the agency. We are correcting that this year. We will soon have all of our past Directors' photos prominently displayed. They have each played important roles in the evolution of the OTS, and I hope to bring them together this fall to recognize their contributions to the agency.

I want to take just a couple of moments to talk about where OTS is today. The evolution I referred to has not necessarily been a seamless and steady path. Each Director has put his or her own imprint on the agency, and sometimes that path has had twists and turns. Ellen's imprint on the OTS clearly enhanced the agency's involvement in community activities and consumer issues. At other times, the agency has taken a different direction, sometimes with less emphasis on outreach and somewhat less involvement with consumer and community groups.

In the last year and a half, we have increased our human resources in a number of areas. So far, we have added 100 new employees, and we are still recruiting to fill a number of open and newly created positions, including in legal, information technology, field examinations, field manager, applications manager, and some high level regional management positions. Significantly, we have established new compliance specialist

positions in each of our five regional offices to provide additional support and policy direction.

We also recently recruited Cassandra McConnell to serve as our Director of Consumer and Community Affairs. This is a new position that will work closely with Community Affairs Managers in our regional offices regarding our nationwide Community Affairs program and activities. Cassandra, who currently manages the Community Affairs function with the Federal Reserve Bank of Cleveland, begins with us next month and I am sure many of you will have an opportunity to work with her.

We also hired a new Senior Economic and Policy Advisor, Sharon Stark, who joined us 2 weeks ago. Sharon is an outstanding addition to our economic policy team, and provides us with additional depth and range in analyzing, understanding and implementing economic and housing policy. Most recently, Sharon was the Fixed Income Market Strategist for Stifel, Nicolaus & Company, a full-service brokerage firm in St. Louis.

We also made the following organizational changes:

- We created the position of Senior Deputy Director and Chief Operating Officer, and that highly qualified individual is Scott Polakoff.
- We established two Deputy Director positions – promoting Tim Ward from his position as CIO/CFO to Deputy Director for Examinations, Supervision and Consumer Protection, and John Bowman, from Chief Counsel to Deputy Director and Chief Counsel.
- We added four Managing Directors under Tim Ward in Supervision:
 - Grovetta Gardineer, Managing Director of Policy Development;
 - CK Lee, Managing Director for Complex & International Organizations;
 - Lori Quigley, Managing Director of Operations; and
 - Montrice Yakimov, Managing Director of Compliance & Consumer Protection.
- We have a new CIO/CFO – Wayne Leiss, and we will soon have a new Deputy CFO.
- And I believe we have greatly improved our diversity – on our senior management team, and throughout the agency.

At present, we are well staffed, well funded, and prepared to handle whatever future lies ahead – we are anticipating it will be a good future.

And now to the primary subject today. I respect CFSI's mission to assist the financial services industry in identifying, developing and implementing innovative ways to deliver asset-building opportunities to the unbanked and underbanked. CFSI facilitates

the expansion of assets to the unbanked and underbanked in ways that are profitable for both the company and customer. This is a win-win strategy I strongly support. As a former community banker, I am keenly aware of the important role the banking industry plays in strengthening communities by providing critical financial services and promoting economic development.

While estimates on the number of Americans who are unbanked or underbanked vary, the Federal Reserve has estimated that up to 10 percent of American families are unbanked.¹ A January 2007 study based on U.S. Census data indicates that:

- 14 percent of U.S. born white families are unbanked, compared to
- 46 percent of U.S. born black families;
- 34 percent of U.S. born Hispanic families; and
- 34 percent of U.S. born families of other racial groups.

Among immigrant groups, 53 percent of Mexican immigrant families were unbanked, compared to 37 percent of other Latin American immigrant families, 20 percent of Asian immigrant families and 17 percent of European immigrant families.²

Such data highlight the presence of a significant emerging market for financial services that financial institutions are increasingly pursuing – as evidenced by the growing percentage of minorities who are purchasing their own homes.

OTS Initiatives to Facilitate Access to Financial Services

I would like to share with you some of the initiatives that the Office of Thrift Supervision (OTS) and the thrift industry are engaged in to facilitate the expansion of quality financial services products and services to the unbanked and underbanked. Our efforts include encouraging thrift CRA programs that develop products suitable for entry-level consumers. Large institutions use the CRA service test and intermediate institutions use the community development test to reach out to serve the needs of low-income residents in their communities. In our CRA exams, we consider whether an institution is offering products that are suitable for low-income residents. We also encourage institutions to look at the services offered through their branches and review their branch locations to ensure they are appropriately serving low income residents.

CRA Revisions that Help the Unbanked/Underbanked

Recent CRA enhancements aligning OTS with the other banking agencies facilitate the provision of products and services by thrifts to the unbanked and underbanked. We finalized this in March, including adoption of the new community

¹ The Board of Governors of the Federal Reserve System, in its *Survey of Consumer Finances*, 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.

² Sherrie L.W. Rhine, Katy Jacob, Yazmin Osaki, Jennifer Tescher, “Cardholder Use of General Spending Prepaid Cards: A Closer Look at the Market.”

development test for intermediate small institutions, and eliminating the different CRA treatment of large thrifts compared to large banks. I believe amending our rule was a positive step to facilitate consistency between the banking and thrift industries. Re-aligning our rule served to emphasize key objectives of the CRA, an important tool in reaching out to unbanked and underbanked communities.

The Interagency Subprime Statement

Another supervisory effort that I want to highlight was aimed at keeping struggling homeowners out of foreclosure. Joint banking agency guidance, the Proposed Statement on Subprime Mortgage Lending, addresses emerging issues involving certain subprime mortgage lending practices and outlines key risk management and consumer protection processes, policies and procedures that institutions should implement.

The banking agencies are working aggressively to try to finalize the guidance by the end of the month. I expect the final guidance will reinforce the need for strong underwriting and risk management standards to ensure that borrowers are receiving loans they can afford. I will also seek to make sure the guidance addresses practices the agencies consider predatory, and reinforces the importance of clear and balanced disclosures so borrowers understand the terms of their mortgages. One of the primary goals of the guidance is preserving homeownership and avoiding foreclosures for subprime borrowers, including in many instances the unbanked and underbanked, who are in danger of losing their homes.

Outreach Activities

Another way in which the banking agencies reach unbanked populations is through community outreach programs. The OTS conducts these activities through our Community Affairs function, which has been strengthened significantly over the past twelve months. For example, we recently re-established a centralized Community Affairs function in Washington DC to coordinate the efforts of our talented regional Community Affairs staff.

The programs and strategies that the OTS and the other banking agencies use through our Community Affairs programs are as diverse as the populations they serve. For example, the agencies sponsor various conferences, workshops, and roundtables to engage in discussions about the unbanked, share best practices, and identify workable solutions.

For their part, many institutions offer specialized credit programs, deposit products and services, and financial education programs targeted at unbanked and underserved populations. Lenders also establish partnerships with local nonprofit organizations whose mission is to provide financial education to consumers and small business owners on topics such as basic banking, the benefits of using financial institutions, budgeting and money management, first-time homebuyer training, and consumer credit counseling.

In addition, financial institutions provide low cost deposit products and services such as check cashing and money remittance services to attract and connect with unbanked consumers. Institutions and the banking agencies also support programs that provide wealth-building strategies such as "Individual Development Accounts" that require a consumer to establish a savings account and complete financial education training. The programs and strategies are intended to help educate and encourage consumers to consider establishing a banking relationship with a mainstream financial institution.

OTS and Thrift Industry Initiatives

I also want to mention a number of activities that OTS staff and many of the institutions we supervise are involved in to bring underbanked and unbanked people into the financial services mainstream. The OTS is involved in the FDIC's initiative, the Alliance for Economic Inclusion (AEI), the nationwide program that brings unbanked and underbanked populations into mainstream banking. There are many partners, private and public working in smaller groups to achieve the goal in many communities around the country. Both our Chicago office and West Regional office are active in the AEI program. The goal of the program in Los Angeles is to bring 10,000 unbanked individuals in Los Angeles County into mainstream banking over an 18-month period. The AEI, working through the FDIC, OTS, and the other agencies, has also created a series of work groups to develop strategies to target new Americans, youths, and adults.

The OTS and the FDIC have also partnered with various banks in Georgia to address a problem in the immigrant community. Many migrant farm workers have become the victims of violent crime because they do not keep their money in banks. They are often easy targets for criminals because they keep significant amounts of cash in their homes and in their wallet. The OTS and the FDIC have held several meetings with institutions and non-profits in the community to help them develop banking relationships with these farm workers.

One of our thrifts, State Farm Bank, is providing a financial literacy training program, Make it Possible, in English and in Spanish for the non-profit community to use in assisting farm workers to develop financial skills. In addition to using the materials in small workshops, State Farm Bank has developed large partnerships with the National Council of La Raza, National Association of Real Estate Brokers, NeighborWorks America and the IRS to deliver Make it Possible seminars all across the country.

In addition to offering financial literacy programs around the country, Chevy Chase Bank, a thrift in the Washington DC area, recently piloted a program aimed at providing banking services to Spanish-speaking customers in several branch offices. The program includes financial literacy training, product development, and translation services. And the pilot branches, of course, are staffed with Spanish speaking employees.

One of our supervised institutions in South Florida, BankUnited, is also active in developing long-term banking relationships with low income families. One of the initiatives they support is the "Miami Saves" program which is the local campaign of

America Saves, a nationwide campaign involving approximately 40,000 savers and 1,000 non-profit groups, financial institutions, and government agencies. BankUnited has participated in this campaign since its inception by participating in monthly meetings, service on committees, and financial support. Additionally, many thrifts, including State Farm and BankUnited, support local and national Individual Development Account programs designed to encourage savings by populations that have traditionally been unable to save.

Another large thrift, E*TRADE Bank, provides significant funds in support of Operation Hope, a non-profit organization focused on connecting the minority community with mainstream, private sector resources, and empowering under-served communities. E*TRADE has disbursed \$5.7 million of a multi-year financial pledge commitment of \$7.5 million, which commenced in 2002 and continues through 2010.

Washington Mutual has also developed programs to reach out to the unbanked and underbanked. WaMu collaborated with a community-based organization to develop and introduce the Essential Banking Account for the unbanked. This pilot program, currently only offered in California, provides a low cost, “checkless” checking account that can be opened for \$1. The accountholder receives five free money orders per month, an ATM card and unlimited use of WaMu ATMs, a monthly account statement, and free personal online banking with bill pay. The monthly fee for this account is \$5.

Another initiative is the “Bank on San Francisco program.” This collaboration between the San Francisco Treasurer's Office and local financial institutions was launched in 2006 to bring 10,000 unbanked consumers into mainstream banking by offering affordable banking products. Lenders involved in the program include Citibank, N.A., First Republic Bank, Union Bank of California, and Wells Fargo. The institutions agreed to accept alternative forms of customer identification consistent with requirements of the Federal Bank Secrecy Act/Anti-Money Laundering rules and to track new accounts opened under this program. WaMu is also a partner in the program.

In March 2007, the U.S. Treasury Department’s Financial Literacy and Education Commission, which includes the OTS and other agencies engaged in financial literacy initiatives, hosted a “Reaching Unbanked People” conference in Seattle, Washington. The conference addressed comprehensive models to reach the unbanked, innovations in reaching unbanked people, and best practices and ideas. As a result of the conference, Seattle is considering an initiative similar to the Bank on San Francisco program. The OTS and the other federal banking agencies are working on a similar conference this fall in New York. The program will feature successful models for serving the unbanked and underbanked, highlight the importance of financial education, and identify best practices.

Another institution, United Labor Bank, in partnership with construction trade unions, provides financial education training to construction trade apprentices, many of whom are unbanked and use fringe financial services. The institution, a federal thrift owned by construction trade unions, provides financial education training that focuses on money management skills, the advantages of establishing relationships with a bank, personal saving habits, and homeownership. The training is mandated by the trade

unions for all apprentices. Since many of the apprentices live outside the thrift's service area, they are encouraged to open bank accounts at financial institutions close to their homes or work.

All of the programs I have mentioned share one common theme. They involve partnerships with entities such as the OTS and the other federal banking agencies, federal thrifts and other financial institutions, community development organizations, and other parties. I believe that such strategic alliances are critical in tackling the challenges of bringing more unbanked and underbanked people into the financial services mainstream.

OTS Minority Owned Institution Program

Another OTS initiative that supports providing quality financial products and services to the unbanked and underbanked is our Minority Owned Institutions program. We provide technical assistance and other resources to the 22 minority owned institutions we regulate. These institutions play a valuable role as providers of quality financial products and services, financing entrepreneurship, and serving as economic incubators in many low and moderate income communities.

Pursuant to this program, last year we launched a new section of our website that provides information on resources, training opportunities, partnership opportunities, a feedback mechanism, and other information on our Minority Owned Institutions program. We also increased our outreach to organizations dedicated to supporting minority owned institutions and we will continue to strengthen this important function.

We are also showcasing our Minority Owned Institution program at various conferences designed for minority entrepreneurs and investors. This includes information on how to charter a federal thrift and receive assistance and other services from the OTS. Finally, we are evaluating the profitability of our smaller thrifts, including several minority owned institutions we supervise, in order to determine whether additional steps may be warranted or supportive.

Recent Supervisory Announcement

Before closing, I want to briefly discuss our announcement last week regarding the execution of a significant formal supervisory agreement against a thrift and its affiliates to address and remedy problems created by a subprime lending program that was conducted out of the thrift's affiliate. Our action against the thrift was based on its failure to manage and control in a safe and sound manner the loan origination services outsourced to its affiliate. Our supervisory agreement required the institution to identify and provide timely assistance to borrowers who were negatively affected by the loan origination and lending practices of the thrift's affiliate and who are at risk of losing their homes in foreclosure.

Pursuant to the supervisory agreement, a reserve of \$128 million was established to cover costs associated with providing affordable loans to borrowers whose creditworthiness was not adequately evaluated when their loan was originated and to

reimburse borrowers who paid large broker fees or lender fees at the time of the origination. In addition, the institution agreed to increase the reserve if the costs of remediation efforts turn out to be higher than initially estimated and, in fact, the reserve has already been increased by another \$35 million. Finally, the institution and its affiliates committed to donate another \$15 million to be used for financial literacy programs and credit counseling.

I believe mention of the supervisory action is important in the context of today's discussion because it addresses one of the primary reasons that people continue to remain unbanked in America – financial literacy. Many consumers continue to avoid conventional banking relationships out of fear or intimidation of the banking system. Stories of unsophisticated (and sophisticated) borrowers being brought to the brink of foreclosure on their homes because they did not understand the terms of reset on their mortgage agreement only serve to further alienate the unbanked.

An important aspect of the supervisory agreement was the \$15 million fund for financial literacy programs and credit counseling. I continue to believe that the single biggest impediment to bringing people into our banking system is the lack of financial literacy. And I also believe promoting financial literacy is as important for a bank or thrift as it is for its customers. An informed and knowledgeable customer who protects his or her own self interest also protects the institution from making bad decisions that will later harm the customer and the banking relationship of the customer with the institution.

Conclusion

Let me close by saying how pleased I am to be with you today discussing this important public policy issue. The OTS has been engaged and will continue to engage in the identification and execution of programs and initiatives to help bring the unbanked and underbanked into the financial services mainstream. Thank you.