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Challenges Faced by Women in Building and Maintaining Assets

I would like to thank Jo Ann Kane, a tireless advocate for low-income women and their families, for inviting me to speak here today. I am also honored to share the podium with two leaders in the community development arena -- Sister Barbara Aires, a longtime advocate of socially responsible institutional investment, and Elsie Meeks, who has spent many years working to increase the availability of capital on Native American tribal lands.

I want to explore three related issues with you today. Where do women fit into the current financial environment? How do women, particularly low- and moderate-income women, successfully build and maintain financial assets? And how do women, as consumers and asset builders, *keep* those assets and avoid financial pitfalls such as predatory lending? I can think of no better venue to address these important questions than here, among a group of people who have dedicated themselves to improving the economic security of women and their families.

Women in the Financial Environment

Women have made enormous gains in the last 30 years on the political, social, and economic fronts. Women as individuals have the potential to become major financial players and women as a group are a major economic force. Today, nearly 60 percent of all adult women are employed. While women made up 30 percent of the labor force in 1950, we now make up more than 46 percent, nearly half of the labor force today. The U.S. Labor Department reports that 99 percent of women will work for pay at some point in their lives. In recent years retailers and financial services institutions have recognized the growing importance of women in the economy. Women spent \$3.5 trillion on retail products and services in 1997, and advertising industry studies have found that women are the primary consumer decision-maker in more than *80 percent* of all households.

Homeownership rates among women are increasing. As of last year, 53 percent of women head of households owned their own homes, a figure that continues to show an upward trend. Thirty years ago, women faced tremendous barriers to purchasing their own home.

However, the Equal Credit Opportunity Act, enacted in 1974, set the framework for increased access to home mortgages and other loans for women and minorities. For women, this legislation eliminated gender and marital status as factors that lenders could consider in the credit review process. Over time this led to further changes by mortgage lenders to eliminate many of the historical barriers women faced when trying to obtain credit on their own. For example, mortgage lenders now treat as income the proceeds from part-time or multiple-job employment, alimony and child support, foster-care services, and rental payments received from boarders. In addition, mortgage products have been expanded to decrease the amount of savings required for down payment and closing costs.

On the commercial lending side, women, in increasing numbers, are gaining access to capital to start or expand their own businesses. Since 1987, the number of women-owned firms in the U.S. has more than doubled, with women-owned firms now representing 38 percent of all firms. Women-owned firms are found across all industries, and are experiencing the greatest growth in the construction, wholesale trade, and transportation industries. And while banks' market share of small-business loans has declined, the percentage of women-owned firms using bank credit has increased. As banks and other financial service institutions develop a growing recognition of the market opportunity of women-owned businesses, they are developing products and services geared specifically to women entrepreneurs. Banks and other companies are also increasingly recognizing women as investors, with marketing programs and investment products targeted toward women.

However, the challenge that women face in this new century is the need to maintain and build upon the economic gains of the last 30 years. The number and proportion of families in which a woman is the sole financial supporter of the household has grown. In 1996, nearly 20 percent of all families were maintained by women, up from 11 percent in 1970. Although the trend is encouraging, with the poverty rate for female-headed households dropping to a record low of 24.7 percent in 2000, women, particularly the elderly, are still disproportionately living in poverty.

The financial needs of women differ across economic strata, but all of these needs center on acquiring, expanding, and maintaining assets. And the ability to acquire and manage assets depends in a large part on education and access -- being adequately informed as to how asset generation works, and being in a position to acquire and deploy assets. Naturally, there are a variety of financial products and services to fit the spectrum of women's financial needs -- products that allow us to save, borrow, and invest effectively. Regardless of the need, whether it is opening a first savings account, putting away money for a down payment, investing in a new business, or planning for retirement, women need to gain a familiarity with financial products and services in the marketplace that will allow them to better handle financial needs.

Building Financial Assets

Asset creation can be viewed a series of steps for the individual woman and her family, beginning with the need for short-term financial protection and then expanding to provide future

financial security and financial opportunity. The starting point, and a difficult one for disadvantaged women, is a stable income flow to cover routine and expected expenses -- the rent or the mortgage payment, the shoes and blue jeans, the utility bills, supper on the table, or a birthday celebration.

The first step consists of building savings and acquiring insurance to deal with next week's emergency or unexpected event, such as a health crisis or major car repair bill. With some protection against emergencies, a woman can then begin to think about her long-term future needs, including retirement planning. Today, retirement planning needs to take place many years in advance of a woman's actual retirement date, and means a lot more than depending on Social Security. Women need to take advantage of opportunities to participate in a pension plan at their place of employment, or utilize Keogh plans and other options available to the women business owner, and make what personal investments they can, including investments in IRAs, or savings bonds, that will grow and provide future cash flows. But because they are often busy caring for others, women may have difficulty focusing on retirement planning. Social Security Administration surveys found that, as a group, women experienced the smallest gain in knowledge about Social Security following the annual mailing of Social Security statements. Women surveyed were interested in the statements, but did not read them carefully because they did not have the time.

The final step in building and maintaining assets is the acquisition of productive assets to expand future income and to leverage into additional asset growth. The major productive asset for most American families, including women-headed households, is ownership of a home, which allows the family to grow equity. Automobile ownership can be a vital asset, used to access a higher paying job, for the suburban or rural woman. Business ownership is a productive asset that is not limited to the wealthy. Finally, although it is a non-financial asset, investment in *human capital*, through the acquisition of education, is possibly the most productive asset of all.

How do women acquire productive assets? By leveraging their existing assets, whether tangible or intangible. By accumulating enough savings to make a down payment on a home. By developing a business concept and operating plan that will lead to financing from a bank, a loan guarantee by the SBA, or funding from a non-profit organization. By having a stable enough environment, adequate childcare, the confidence, and the support to apply for a student loan or grant, and to attend classes. Through the assistance and caring of organizations such as the McAuley Institute, and the realization of profitable partnership opportunities between banks and community organizations.

Needs and Challenges of Low- and Moderate-Income Women

As women are now recognized as an established part of the financial landscape by the mortgage and commercial lending industries, greater attention has turned to the financial needs of low- and moderate-income women. As these needs gain greater attention from the marketplace, the availability of capital is expanding for low- and moderate-income women as

well. Increasingly, low-income women are finding new products and services that are particularly relevant to their unique needs. These products may be provided solely by commercial organizations, or, as is often the case, provided through subsidy programs funded by foundations or the government, alone or in partnership with for-profit businesses. Some products are specifically tailored for women, while others are appropriate for the entire low-income market, in which women are, as noted, over-represented.

These products include individual development accounts, microenterprise loans, low-down payment home mortgage loans, and low-interest student loans.

It has often been said, in one form or another, that without assets, poor families are likely to remain poor. And while spending is unlikely to help anyone escape poverty, saving is the most common first step to economic mobility. But it is difficult to put away a portion of one's income when it seems like all of it, and more, is already allocated to paying for basic necessities. That is why programs and incentives to help people build savings, like those supplied by Individual Development Accounts, or IDAs, are critical. IDAs combine the incentive of matched participant savings with education and personal support from program staff and other account holders.

Low- and moderate-income women who operate their own small businesses out of the home, and have no banking history, may find that when they want to expand their businesses, banks may be unwilling to lend them money. Despite the ability of small businesses to create wealth and income for their owners, these microentrepreneurs drop through the cracks of conventional financing for a variety of reasons. They may have credit needs that are too small for a bank to profitably handle, flawed or no credit history, little collateral, incomplete financial records, or language barriers. However, partnerships between community organizations and banks have resulted in microenterprise programs that combine microlending with entrepreneurial training, mentoring, and on-the-job training to maximize the potential for self-sufficiency.

By far, owning a home is the primary means by which low-income Americans build long-term assets and increase their financial net worth. Homeownership is the primary means of accumulating wealth in the United States, and the most important financial asset that many women have is their home.

Through homeownership, women invest in an asset that can grow in value and generate financial security. As mortgage payments are made, the homeowner's equity grows and can serve as a financial base for other investments, including education. Homeownership programs targeted to lower-income individuals, such as the NeighborWorks' Section 8 Homeownership Program which allows section 8 vouchers to be used toward mortgage payments, are an important vehicle for expanding access to homeownership. Many of these programs, including NeighborWorks', report that a high percentage of their participants are women.

Along with the potential for asset appreciation, homeownership confers other benefits. It strengthens neighborhoods by increasing stability, keeping capital in the community, attracting

outside investment, and raising property values. Homeownership is also positively correlated with civic involvement, self-esteem, and the sense of control that one has over her own life.

The Challenge of Maintaining Assets

Given how important home equity is as an asset for low- and moderate-income women, it is vital that once such a precious asset is acquired, it not be pirated away through predatory lending practices. We have seen tremendous advances over the last several years in credit availability. Not surprisingly, improved access to credit may mean higher loan prices for subprime borrowers whose credit profiles present greater risks. However, responsible subprime lending should not be confused with predatory lending. There are a great many responsible subprime lenders who make credit available at rates that reflect the costs and risks of such lending without engaging in abusive lending practices. But we do need to recognize that some of the characteristics that cause a borrower to be a subprime credit are also characteristics that may make that customer vulnerable to abusive lending practices.

Consider the example of the elderly woman whose home is badly in need of repairs. With not enough cash on hand to pay for them, the homeowner is steered to a lender who arranges a refinancing loan for debt consolidation and home repairs. The homeowner pays 3 points on the loan and the loan carries a prepayment penalty. A few months later the homeowner is convinced to refinance the loan again. The new loan is for a higher principal amount, and the borrower is forced to pay the pre-payment penalty on the original loan as well as another 2 points in fees in the new loan. This is the practice known as equity stripping.

Because of schemes such as these, the challenge of maintaining assets, especially for financially unsophisticated individuals, has become at least as important as the challenge of building assets. Elderly female homeowners are primary targets for predatory loans, as many of their homes have little or no mortgage debt. These women are likely to have incomes of less than \$30,000 and equity of \$100,000 or more. They are vulnerable to predatory lending because they face bills from medical expenses or repairs to their older homes. To pay off their debt, they have to tap into their home equity. However, their knowledge of financial alternatives is sometimes limited, and thus they may unknowingly replace unsecured credit card and personal loan balances with secured debt using their home as collateral. This is an attractive market for lenders as estimates based on the American Housing Survey suggest that elderly female single person households hold approximately *\$570 billion* in home equity.

One of the most important ways you can make homeowners aware of predatory lending practices is to help them recognize a loan with abusive features. The term “predatory lending” is often used to refer to a wide range of practices and does not lend itself to a clear or simple definition. These practices include, but are not limited to:

- loans made in reliance on the value of the borrower’s home or other collateral, without a proper evaluation of the borrower’s ability to repay;
- pricing terms -- whether interest rates or fees -- that far exceed the true risk and cost of making the loan; and

- inadequate disclosure of the true costs and risks of the transaction.

Other abusive features include the improper use of credit life insurance, balloon payment structures that leave the borrower owing most of the principal amount at the end of the loan period, and repeated refinancing which can occur from an inability to meet either the monthly or the final balloon payment. Each of these products has a place in mortgage financing, when used in an appropriate manner. For instance, while balloon payments make it possible for young homeowners to buy their first house and match payments with a rising income stream, they can spell financial disaster for those whose income is not likely to rise significantly. Likewise, refinancing enable borrowers to take advantage of lower interest rates, but they can be used inappropriately to repeatedly flip borrower's loan, resulting in high loan processing fees and other unnecessary costs.

Addressing the Challenge

Without a doubt, government has a role in addressing abusive lending practices, but by no means does it have the only role. The majority of these loans are made by lenders over whom the federal banking agencies have little control. Unlike regulated financial institutions, many nonbank lenders do not undergo periodic compliance examinations. I can report, however, on steps the OCC is taking to limit the involvement of national banks in these lending practices.

The OCC issued guidance directing our examiners to review bank lending policies to ensure that they do not permit loans to be made or purchased for which there is no reasonable expectation of repayment without resort to collateral. We have alerted our examiners to look for practices such as collateral or equity stripping and the use of pricing terms that far exceed the lender's true risk and cost.

Likewise, we have made it clear that national banks should not make or purchase loans having these characteristics. We have emphasized that such loans violate safety and soundness standards and increase the risks of unlawful discrimination. And indeed the industry has responded in a variety of ways. For example, several large lenders have discontinued offering single-premium credit insurance. We are also encouraged by lenders that establish "two-way" referrals in which an applicant who qualifies for a prime loan will be referred by the subprime lender up to the prime lender, rather than referrals only taking place in the other direction.

In the same vein, we encourage industry efforts to develop standards for best practices for the subprime lending community, in order to eradicate predatory lending at the source. I note that Treasury Assistant Secretary Sheila Bair just yesterday applauded this type of industry effort and commented that for regulated depository institutions, such best practices might be incorporated into bank supervisory standards and enforced through the supervisory process.

The OCC has also taken enforcement actions against banks that we believed were engaged in unfair and deceptive practices in violation of the Federal Trade Commission Act. Finally, we will continue using our chartering and licensing authority to ensure that subprime

lending by national banks and their subsidiaries is conducted responsibly and with appropriate consumer protections.

Through education and counseling, organizations such as the McAuley Institute are playing a tremendous role in helping consumers recognize abusive lending practices. Financial literacy programs enhance consumer financial skills and provide individuals with a better understanding of the financial products and services that meet their needs. Understanding the range of available financial products and services enables consumers of all income levels to make better-informed choices in the financial marketplace.

Many of you here today are on the front lines in efforts to combat abusive lending practices. Those of you who support McAuley's Women's Homeownership Campaign are working with a program that includes many of the asset building and maintenance techniques I have discussed today. By providing technical assistance and training to local organizations, the McAuley Institute enables a large number of groups across the country to provide the counseling, educational services, and funding that can help low-income women obtain the benefits of stable, affordable homeownership.

Conclusion

Today, I've discussed the financial progress of women, outlined ways for low- and moderate-income women to participate in that progress through asset building and maintenance, and addressed the serious issue of abusive lending and its potential to rob low- and moderate-income women of the precious gains that they have made.

It is critically important that organizations such as McAuley continue teaching women the importance of building and maintaining equity in their homes. In addition, many banks have worked with community organizations and governmental agencies to develop financial literacy programs or provide employees to serve as educators and trainers. Others support financial literacy organizations through volunteer staff assistance, loans, and contributions. Building partnerships is what makes these programs work. The OCC will continue to allow our institutions to be flexible, innovative, and to try new products that help low-income individuals become part of the financial mainstream. Together, community organizations, banks, and government can draw the best from each other to help all of our Nation's residents build and maintain the assets that will provide financial security for themselves and their families.

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The OCC charters, regulates and examines approximately 2,200 national banks and 52 federal branches of foreign banks in the U.S., accounting for more than 54 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.