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Comptroller Applauds States that Permit Competition in Financial  
Services

WASHINGTON -- Comptroller of the Currency Eugene A. Ludwig applauded states that permit consumers to enjoy the benefits of open competition in financial services while at the same time providing appropriate consumer protections.

In particular, he pointed to Illinois, which recently enacted a comprehensive package of consumer safeguards that protects consumers against abusive insurance sales practices by all providers without putting banks at a competitive disadvantage.

"That adds up to real competition and more choice for consumers," he said in a speech to the Consumer Federation of America's annual financial services conference. "In the end, it will mean lower costs for everyone. And that is something we can all support."

In his remarks, Mr. Ludwig pointed out that home ownership depends not only upon the ability of an individual to secure financing, but also to obtain homeowner insurance. "All the budgeting and counseling, the saving and the comparison shopping, and the most accommodating lender in the world will not do the trick if affordable property insurance cannot be obtained," he said.

Mr. Ludwig said consumer organizations have expressed legitimate concerns about the cross selling of products. "No one would dispute that we need effective consumer protections to prevent unfair and deceptive practices."

Remarks by

Eugene A. Ludwig  
Comptroller of the Currency

before the

Consumer Federation of America  
Washington, D.C.

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It is a pleasure to be with you once again as the CFA begins its fourth decade of distinguished service to consumers and to a growing economy -- interests that are truly inseparable. But it was not so long ago that a different view prevailed. Indeed, when CFA began its work back in 1967, the consumer marketplace was widely considered to be a zero sum game in which buyers and sellers could make good only at the other's expense. Consumer protections, especially in financial services, were weak.

Concern about customer satisfaction was too often a matter of lip service; "take it or leave it" was the message implicit in many retail transactions back then. There is little doubt that this mentality -- at once complacent and confrontational -- contributed to the temporary loss of America's competitive edge in many key sectors of the consumer economy during the 1970s and early 1980s.

Today, it is much clearer that consumer satisfaction has a significant impact on our nation's general economic well being. By making informed, rational choices in the marketplace -- by demanding fairness, value, and choice -- consumers reward the best and most efficient providers of goods and services. In that way, we preserve and enhance our standard of living and competitiveness in the global economy.

For your important contribution to that cause, Steve, you and CFA deserve our thanks. CFA's work in promoting consumer education and meaningful disclosure -- CFA's emphasis on fairness, value, and choice for consumers -- have helped build a better consumer marketplace and a better American economy. Often you have sounded alarms and proposed practical solutions to the failings of our dynamic consumer marketplace, particularly in the realm of financial services. Today's financial consumer takes for granted so many of CFA's accomplishments over the years: from credit card and savings account disclosure and regulation to check hold and home equity protections -- to say nothing of the initiatives that CFA has spearheaded in protecting the consumer in the insurance and real estate markets. I know of few advocacy organizations that have been as effective as CFA.

You knew -- and now we all know -- that a big part of our economic success as a nation during this century was the result of recognizing and satisfying the needs of consumers. This has certainly been true in banking, especially on the credit side.

One of the great secular trends of the 20th century is what I often refer to as the democratization of financial services -- a retail revolution that has transformed the whole complexion of banking and with it, our whole society. Once limited to making short-term loans to accommodate the needs of commerce, commercial banking today is just as much about households and communities as it is about business. A century ago, national banks were prohibited by law from making mortgage loans; today, banks make more home purchase loans than any other type of depository institution. Early in this century, mainstream bankers denounced the idea of lending for the purchase of an automobile as frivolous if not reckless; today, commercial banks own the biggest share by far of the market for auto loans. And, within just a few short years, we have seen the use of the credit card and other higher technology payment and credit vehicles proceed from futuristic to commonplace. Indeed, given current debt loads and default rates, some have suggested that we may have actually made access to credit too easy.

Despite what we have achieved, the democratization of financial services is by no means complete. There remain important areas

of concern. One area that I would like to focus on today concerns the availability of quality financial products to underserved communities. For while important strides have been made within the last several years in serving some of the credit needs of low and moderate income Americans, the non-credit financial needs of low and moderate income Americans still are too often going unmet.

For example, roughly twelve million American households do not have deposit accounts. Millions of others lack access to effectively regulated credit and payment services. Many of these consumers are frustrated in their efforts to build wealth by the lack of a formal banking relationship. CFA and a number of its member organizations have long advocated greater participation in the financial sector as an essential element in our efforts to promote real economic opportunity and equality all across our country. Now, as our century comes to a close and as CFA enters a new decade of service, we must ask anew, how do we get there? What steps remain to be taken to bring the millions of under banked households into the financial mainstream?

To my mind, there are three essential preconditions that must exist before any plan to increase banking services to underserved and unserved communities has a chance for success. First, we must create an atmosphere that encourages innovation. Second, we must establish a balanced regulatory framework. And third, we must promote greater competition in the financial services marketplace. Innovation, sensible regulation, and competition, in short, are what I believe to be the keys to increased access to financial services for low and moderate income Americans.

Let me turn first to innovation. As one reviews the long process by which credit was democratized in this country, two things stand out. The first is the extent to which traditionally-held views that it was not possible to safely or profitably lend to a particular group or area turned out to be dead wrong. The second is that the development of these new credit markets required product innovation. The variable rate mortgage, securitization, the credit card, targeted community development lending, microfinance and support group lending -- these were all critical innovations that propelled the development of retail credit markets in this country.

Interestingly, while innovation has long characterized the retail credit market, until recently there has been relatively little innovation in retail service delivery. The advent of the ATM, supermarket branch and electronic banking products are exceptions. Such innovative delivery approaches are going to have to become the rule of the future.

This relative lack of innovation in the non-credit product area raises two questions. What caused it? And what can be done to encourage greater innovation and product integration that would help all segments of our population but particularly the underserved segment? For answers to these questions, I believe we have to look at the two other essential preconditions for expanding access to financial services -- sensible regulation and

competition.

To my mind, for much of this century, the banking industry has been locked into a regulatory straightjacket that has limited its ability to innovate. For example, until very recently, for a bank to open something as mundane as a point of sale terminal, enabling customers to make payments at a convenient location, required a branch application. And, because of state and interstate branching restrictions, permission to open this sort of an innovative branch was often denied. The same thing was true for mobile delivery of banking services. A mobile delivery vehicle was also deemed a branch, and, here again, approvals were often denied because of restrictive rules and regulations.

Moreover, rather than being encouraged to provide integrated products and services, banks have until fairly recently been actively discouraged by regulation from providing new products and services or integrating product and service offerings.

It should go without saying that, in criticizing some regulations that restrict innovation and competition, I am by no means criticizing all regulations. Many regulations on the books are absolutely necessary to provide adequate consumer protections, safe and sound operations of financial institutions, and a fair and open marketplace. For example, where banks sell multiple products, it is essential that they be required to make appropriate disclosures so that consumers know that they are purchasing what they set out to purchase.

What I am arguing for, instead, is balanced regulation -- regulation that minimizes burden, promotes competition, but at the same time protects consumers and the economy.

In recent years, I believe we have proved that regulation does not have to be burdensome to be effective -- indeed, that regulation can go hand in hand with expanded business opportunity. A good example of that -- one in which I take particular pride -- is the revised Community Reinvestment Act -- a statute long written off as both onerous and ineffectual. By refocusing its emphasis from process and paperwork to product and concrete results, we have seen dramatic increases in community development lending and investment. In the past four years, banks have invested four times as much in community development projects as they did in the previous 30 years. During 1996 alone, national banks and their community development partners invested almost \$1.5 billion in community development corporations and community development projects -- funds used to produce affordable housing, finance small business, and develop retail and commercial revitalization projects.

When CRA became law 20 years ago, few thought of it as anything more than a new imposition on the banking business. Today it has become the opening wedge for building profitable relationships between banks and previously underserved markets. It has provided bankers with information -- and incentives -- to assess and address these markets. In short, the recent history of CRA has seen a dramatic and promising shift in emphasis away from

mere compliance to competitive opportunity for providers and consumers of financial services.

For example, consider how CRA has helped address the banking needs of native Americans. On the Navajo reservation, a land mass the size of the state of West Virginia, there were three bank branches in operation in 1994. Today there are 12. In 1994, the Navajos had two ATMs. Today they have 14. Regulatory initiative and CRA obligations certainly helped to highlight the Navajos' unmet financial needs. The OCC, for its part, sponsored the formation of partnerships between the tribal government, community organizations, and financial institutions, and launched educational programs that helped break down the barriers of culture and miscommunication. But it was a business decision -- and a good one -- on the bankers' part to respond aggressively to that competitive challenge. Today, the Navajo branches are highly profitable -- for the bankers as well as for the Navajos, who have benefitted from an array of new mortgage and small business loan programs, as well as easier access to deposit and other banking services.

The recent history of low and moderate income housing finance offers another good example of the new possibilities inherent in competition coupled with enlightened regulation. The low/mod market was one bankers had long shunned -- again, in large part because they lacked both information about that market and competitive incentives to explore it. The renewed emphasis on CRA over the past five years has led many bankers to reconsider their mortgage lending policies to low and moderate income communities. And, lo and behold, they have discovered that most of these loans perform just as well, if not better, than home purchase loans to more traditional borrowers. That experience has drawn new lenders into the market -- drawn not by the compulsion of the law but by the magnet of new opportunities for profit.

Reaching out to new markets requires new and innovative ways of doing business. The lessons we are learning from our experiences in expanding access to credit are leading to improvements in the broader service area. The OCC's own research on the needs of the nontraditional bank customer reaffirms what the experience of the marketplace tells us: that first-time home owners sometimes need more than a mortgage to make their experiences positive ones. They need a whole range of ancillary products and services. We have found, for example, that the default rates in the affordable mortgage market are lowest where lenders work with borrowers both before and after the loan closes, to acquaint them with the intricacies of the lending process, and to develop budgeting and household management skills. We have found that early intervention programs can be effective in preventing a loan in trouble from becoming a loan in default. Of course, none of this will come as a surprise to CFA, whose efforts to promote consumer education -- by means such as this conference -- have long been a model for others to emulate.

In other words, to become successfully integrated into the economy, we have learned that nontraditional bank customers

benefit from an integrated package of financial products and services. There is nothing new in this lesson. Back around the turn of this century, in what was heralded as one of the real financial and social reforms of the day, big employers started to pay workers their wages by check instead of by cash. This obviously made sense for employers, who no longer had to keep large sums of currency on hand. But what really commended the change in policy to its proponents was its expected beneficial effect on the standard of living of the wage earners. Having to cash their paychecks at the bank would presumably make it easier for wage earners to save and to budget, and less likely that their earnings would fall prey to theft or their own impulse spending.

But it didn't work out that way. Few factory workers had bank accounts or felt comfortable setting them up. Instead, local merchants -- especially saloon keepers -- got into the business of cashing paychecks for paying customers. For all the good intentions with which it was launched, this experiment wound up doing little to promote thrift -- or sobriety.

This story holds lessons for us today. Certainly, loans to first-time homeowners and consumers are important. But to help these Americans become full participants in our national prosperity, it is equally important to provide information about and access to the whole interrelated menu of financial services. As we reach out to underserved markets, we need to embrace a balanced, integrated approach that includes financial education, savings and investment products, and low-cost access to the payments system, as well as credit in its various shapes and forms.

Some banks have already made important progress in this area. CFA is especially to be commended for collaborating with financial institutions in programs to provide comprehensive financial education. One of our largest banks recently unveiled a program that offers employees without bank accounts direct deposit of paychecks and a debit card, through which funds can be accessed from ATMs and point-of-sale (POS) locations nationwide. Other banks use stored-value cards for the same purpose. Still other institutions, which serve large foreign-born populations, allow people without accounts to electronically transmit funds abroad for a low flat fee -- an especially important service for immigrants wishing to send cash to family members outside the United States. Such services will become increasingly important when the law requiring that government payments be transmitted electronically goes into effect in 1999.

The integrated approach to consumer finance that I am advocating today bears directly on the debate going on here in Washington and in state capitals around the country over financial modernization. From the beginning, the OCC's position has been that genuine financial modernization must advance bank safety and soundness, promote access to credit, enhance competition, and lead to lower prices and more options for consumers. We believe that all of these goals would be served by legislation that would permit banks to engage in a wide range of financial activities

and to choose the organizational form that best suits their business plans, consistent with safety and soundness.

Take the question of insurance powers. Just like the turn-of-the-century worker whose paycheck was worthless without a place to cash it, today's aspiring homeowner or small business owner will get nowhere without property insurance. Period. All the budgeting and counseling, the saving and the comparison shopping, and the most accommodating lender in the world will not do the trick if affordable property insurance cannot be obtained.

It simply does not make sense to me that on the one hand we encourage bankers to reach out and make more home purchase loans to low and moderate income borrowers or more small business loans, and then, on the other hand, we tell these same lenders that they cannot provide the product required to close the transaction. Nor does it seem reasonable to deny the customer in need of insurance the benefits of competition for his business. Neither the banker's nor the customer's interest require that the customer be obliged to go elsewhere to get the insurance he or she needs.

You and others have expressed legitimate concerns about the cross-selling of loan and insurance products. Certainly there is potential for abuse. No one would dispute that we need effective consumer protections to prevent unfair and deceptive practices. No one would defend a lender who used pressure tactics to coerce customers into buying insurance or any other related product. And many states, in addressing the question of insurance sales by banks and other depository institutions, have adopted reasonable and effective safeguards to prevent such abuses from occurring.

For example, the recently enacted law of the state of Illinois contains a comprehensive package of consumer protections: licensing of bank insurance personnel, full disclosure of the risks associated with insurance, restrictions on the use and sharing of confidential customer information consistent with federal standards, and prohibitions against coercive practices.

But, just as important, the Illinois statute does not put banks at a critical disadvantage in competing with nonbank insurance providers for the customer's business. That adds up to real competition and more choice for consumers. In the end it will mean lower costs for everyone. And that is something we can all support.

The potential exists right now to make very great strides toward improving the financial well being of all Americans, but particularly underserved and unserved Americans. To achieve that potential, we need to encourage innovation, a balanced and sensible regulatory environment, and an open marketplace that serves everyone through genuine competition. I am confident that we can take these steps forward. At the OCC, we are committed to building on our constructive partnership with CFA to make certain these steps are taken and taken in a way that ensures a better world for America and all America's children.

Thank you.

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The OCC charters, regulates and supervises more than 2,600 national banks and 66 federal branches and agencies of foreign banks in the United States, accounting for 56 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.