

Remarks by
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One doesn't need to be a macroeconomic guru to know how much reliance we have put on the consumer in the effort to get our economy on the road to a solid recovery. Accounting for two-thirds of the U.S. economy, consumer spending largely determines its fate. Over the past two years, the consumer's readiness to spend, despite rising unemployment and global unrest, has kept this recession mild and the economy afloat. If consumers continue to spend, business investment should revive and recovery should proceed. If the consumer suddenly becomes cautious, then we might be in for a much more difficult and prolonged recovery.

As we put more and more emphasis on consumers, the Consumer Bankers Association is again front and center. This is not an unfamiliar role for an organization whose members have helped so many ordinary Americans enjoy the extraordinary fruits of our industrial economy. In recent years, CBA and its members have been in the vanguard of the effort to help the industry adjust to the responsibilities and opportunities presented by the Community Reinvestment Act -- an effort in which this conference has come to play a major part. And CBA has been a catalyst for industry efforts to tackle the persistent problem of financial illiteracy, helping consumers to develop the basic financial skills and obtain the information they need to make informed choices and keep them out of the clutches of the financial predators.

Now the banking industry faces a new challenge, and CBA members will once again have a critical role to play. America is changing.

Of course, change is nothing new for Americans. It's been the driver of our technological, economic, and social progress. But changes in our nation's ethnic composition have the potential to alter the banking industry profoundly – for better or worse.

There have been times in our past when demographic shifts were so massive and abrupt that they were the dominant political reality of the day. In the decade between 1841 and 1850, for example, the population of the United States grew by approximately six million. More than one third of those new Americans were immigrants, and, of that group, numbering roughly two million, half were from Ireland. The bulk of this influx settled in and around New York City, Boston, and Philadelphia, where, almost overnight, the Irish became a social and political force to be reckoned with. No one could miss their impact.

It would take far greater numbers than that to have an equivalent impact on the America of 2003. There are vastly more of us to begin with, and we are dispersed over a far wider area, than were the Americans of a century and a half ago.

But the most recent census reports tell a story that's no less dramatic – and certainly no less consequential for the banking industry. In 1990 one of every five Americans was a member of a minority group. In 2000, it was one in four. And by 2025 – two decades from now -- projections tell us it will be nearly two in five. Today almost 50 of the largest U.S. cities are “majority minority.” The list of cities in which non-Hispanic whites went from being a majority to a minority during the 1990s includes Milwaukee, Boston, Philadelphia, and St. Louis. Nineteen other cities would have lost population during the decade if not for the growth in the Hispanic population.

But suburban and rural areas are also feeling the effects of this transformation, in largely unprecedented ways. The Hispanic populations in Mississippi and Wisconsin more than doubled

during the 1990s, and some of the most dramatic growth in Asian and Hispanic populations has occurred in suburban counties where these ethnic groups had been most unfamiliar. Indeed, last year I visited community organizations in Kansas City, Kansas, at the geographic heart of the United States -- where a strong influx of Hispanics had led local support organizations to devote significant attention to their interests. This is not a Kansas City that Dorothy and Toto would recognize today.

The U.S. banking industry has enjoyed tremendous success in meeting the needs of the America that we have been. It is no exaggeration to say that the industry's future success hinges on its ability to meet the needs of the nation we are in the process of becoming.

It's not just the future of the banking system that's at stake. The industry's interests and those of our economy have always been intertwined. All Americans benefit when their banks function profitably and well. By the same token, if the industry should fail to meet the challenge of the new demographics, all Americans -- even those who are not bank customers today -- will feel the effects. Indeed, those who are not your customers will feel those effects most of all.

To be candid about it, this is an area in which the industry has in the past had mixed success. We've noticed a certain reluctance to launch the kind of concerted outreach that developing these new markets requires. Indeed, this reluctance may stem from the recognition that cosmetic changes or targeted advertising alone won't suffice for banking organizations to make significant inroads into minority markets. It takes commitment up and down the organization, and to this point some banks have decided -- shortsightedly, I believe -- that the returns weren't worth the investment.

But while many banks have shown some reluctance to enter, nonbank competitors have been consolidating their foothold in minority markets. The phenomenal expansion of payday

lenders, check cashers, rent-to-own operators and other such fringe providers in primarily minority communities is not only a competitive threat to U.S. commercial banks, it's a significant obstacle for members of minority groups in their bid to achieve economic security and a genuine stake in their communities.

For all that, the sheer growth of minority banking markets means that there are still plenty of opportunities to go around – and still time for financial institutions to make up for their late start in taking advantage of them.

Nowhere are the opportunities more bountiful – and the potential payoff to financial institutions, their minority customers, and economic growth more promising -- than in the area of home ownership.

The housing market has been one of the few bright spots in the economy over the past several years. Rising housing sales and prices have helped offset declines in other areas, especially in the stock market, while lower interest rates and the refinancing wave have put billions of dollars back in people's pockets. Nearly one million new homes were sold in 2002 -- the highest number on record -- and the average sales price was nearly ten percent higher than it was two years earlier. But in order to sustain this level of activity, we need to reach out to new customers in new markets.

Consider this: while the U.S. home ownership rate hit nearly 68 percent in 2000, the rates for African-Americans and Hispanics remained well below 50 percent. This gap represents approximately \$600 billion-worth of home mortgages waiting to be made. And there's no end in sight: predictions are that between now and the year 2100, nearly 60 percent of all first-time homebuyers will be young minorities and immigrants.

Or consider the opportunities that are still going begging for banks to establish mutually profitable relationships with minority businesses. The fundamentals are certainly there: the entrepreneurial spirit is alive and well in many minority communities, and those who live in those communities have money to spend – more money than is usually assumed to be the case. New studies conducted in diverse cities such as New York, Houston and Washington, D.C by Social Compact, a nonprofit coalition of corporate leaders, show that minority communities are typically undercounted, both as to size of their populations and their purchasing power. That can perpetuate a vicious cycle: merchants assume that low-income communities can't support retail investment, so they invest elsewhere; and with few local retail outlets, residents must travel to obtain goods and services, spending funds that would otherwise stay put in the community.

Businesspeople who understand the economic potential of minority communities are often frustrated by a lack of start-up and working capital and micro business financing. Surveys tell us that while three-quarters of all businesses rely on bank credit to finance growth, only two-thirds of minority-owned businesses did. The other third relied on personal debt – typically high-interest, unsecured credit card debt. Another recent study of female ethnic entrepreneurs – and women are a major source of business initiative in those communities – highlighted the greater difficulty they face in obtaining conventional financing compared to their non-minority peers – twice as difficult for African American businesswomen as for Caucasians.

Finally, it's clear that there's a demand for retail financial services in minority communities that is being met today by providers other than banks. Ten million households -- nearly ten percent of U.S. households -- are unbanked, and more than 60 percent of those are minority households. African-Americans and Hispanics were seven times more likely not to have checking accounts than Caucasian respondents. And we know something about the revenues that

nonbanks generate: \$60 billion a year by check cashing outlets; at least \$10 billion a year by payday lenders; over \$3 billion a year by pawnshops; nearly \$5 billion a year by rent-to-own operators. According to one estimate, the annual earnings of consumers without bank accounts amount to \$500 billion. It should go without saying that numbers of this magnitude can be ignored by the banking industry only at its peril.

The people who patronize nonbank fringe providers should be your customers. And in some communities, where banks have demonstrated the requisite creativity and commitment to the development of these markets, they are. What are these banks doing that the rest of the industry could be doing, too? That's a question that deserves an answer, and, in the next few minutes, I'd like to share some of the lessons that can be drawn from experience and industry "best practices" in serving ethnic banking markets.

Let me begin by telling you what experience demonstrates won't work. – at least not in isolation. As I said at the outset, a bank's decision to make itself a felt presence in minority markets isn't a decision to be made casually. Nor is it one that a bank's marketing department is capable of executing on its own. It can't be accomplished merely by printing new brochures or running ads on Spanish-language radio. Those steps can be important parts of an effective overall market-building strategy, but that strategy has to encompass a commitment throughout the company, from the very senior-most levels down to the branch management. It has to involve product development, portfolio management, community affairs, human resources, and more.

It has to reach outside the bank, as well. One of the things we've discovered is that the banks that are most successful in ethnic markets are the banks that have patiently researched the needs and characteristics of the market and developed local partnerships. One banker spent two

years personally getting to know the community he was planning to target – and learning enough Spanish to enable him to communicate with his customers and employees. Other bankers have entered alliances with non-profit, community-based organizations, not only to speed the process of establishing name recognition in the community but also to provide services, such as financial literacy education, that the bank may not be equipped to deliver itself. And we know from our research and experience how crucial such training can be, especially to first-time homeowners and small business people.

Understanding the particular financial needs of ethnic communities is obviously a crucial component of any bank that hopes to succeed in them. A bank moving into such a community for the first time might assume that the same menu of product and services that works at its non-minority branches will work there. But bankers with experience in these communities have sometimes found that trying to market their whole product line may detract from effectively marketing what those customers need most. That includes, obviously, low cost checking, deposit, and debit accounts, home mortgages, small business and consumer loans, and other products that are a normal part of most Americans' financial lives. I have long advocated that banks make wider use of technology, especially through the promotion of direct payroll deposit and the offering of electronic account access, to deliver banking services to low-income Americans at prices they can afford.

I've heard it argued that lower income people are unfamiliar -- and uncomfortable -- with technology, and that they may not have personal computers in their homes. I'm afraid that at times this may reflect a rather patronizing attitude that confuses income level with intelligence. But it overlooks two important facts. First, you don't have to own a computer to be comfortable using one. Indeed, many people who spend their workdays gazing at a computer monitor choose

not to have a computer at home, whether they can afford one or not. If they are permitted to use their office computer for personal purposes, they have ready access to financial services on the Internet. And even if they are not so permitted, computers are readily accessible in a variety of other locations, such as libraries and Internet cafes. When it comes to technology, you don't have to be an owner to be an accomplished user.

The second point that deserves emphasis relates yet again to the demographics of minority banking markets. Today fully 45 percent of the Hispanic population in America consists of children nine years of age and younger. Even if their parents are unfamiliar with computers, these young people – the banking customers of tomorrow – aren't. Computers are ubiquitous, and they appear everywhere kids congregate -- in schools, shopping malls, and entertainment arcades. It's important to the banks that hope to serve these future customers that they're able to communicate with them technologically as well as verbally. The banking customer of the future will already be experienced at using the Internet for a wide variety of functions, and it is very likely to expect that he or she will be able to conduct banking transactions by computer. Over-the-counter banking will be a horse-and-buggy methodology to them.

It's also important that the menu of banking products include those that address the unique needs of minority populations. In some immigrant and minority neighborhoods, the act of transferring funds abroad is almost as common as cashing a check. Nearly \$10 billion a year is wired to Mexico alone each year. And some innovative banks, recognizing this, have made low-cost wire-transfer services the centerpiece of account relationships with immigrant customers. For the customer, the savings can be substantial; for the bank, it can become the foundation of long-term, profitable relationships.

Aesthetics count, too -- sometimes in ways that are not always apparent. Those of us who study such things have long wondered why people continue to patronize check-cashing establishments when there is a bank branch next door, offering the same services frequently for lower fees, or even no fees at all. And increasingly our research leads us back to intangible factors, such as bank tellers (or ATMs) that may not speak the customers' language or an unwelcoming business environment in which customers feel out-of-place.

What we do know is that the banks that have achieved some success in minority communities have typically not only staffed their teller windows and desks with employees drawn from the neighborhood, but have also tried to cultivate a look and a feel that are reassuring to those whom they'd like to see walking through their doors. Their décor reflects the culture of the local population; their business hours reflect the working schedules of their customers; they provide play areas and extra chairs in the lobby to accommodate larger families-in-waiting; the signage is multilingual.

To succeed in minority communities, in other words, banks have to work to make themselves a good fit – and good neighbors.

It's time to sum up. Change always presents challenge – and opportunity for those who are positioned to respond to it. The changing face of America will challenge us in many ways in the coming years, but if the patterns of the past hold up -- as I expect they will -- the primary result of the demographic changes I've been discussing will be that we're culturally and materially enriched.

Some businesses may decide that they can safely ignore these changes and carry on as before. But for a broad-based industry like banking – an industry with a statutory mandate to serve – that option does not exist. The industry's responsibilities to its multiple constituencies –

employees, shareholders, existing customers – as well as its responsibilities under the law -- cannot be fulfilled if it fails to respond to the needs of all Americans.

Fortunately, this is not uncharted terrain, and while there are no hard and fast rules for success in minority banking markets, we have had enough experience to have greatly improved the odds against failure. In my remarks this morning, I have tried to bring some of those lessons to light. Bankers must be receptive to innovation in product development and consumer relations. They must recognize that traditional marketing and product delivery approaches don't yield the same results in minority markets that they do in traditional ones. And they must work to develop and leverage strategic relationships with organizations that operate in the communities they seek to serve. That's particularly important in light of the distance that the industry has to make up to be truly competitive in minority communities.

The OCC will continue to take very seriously its responsibility to call the industry's attention to opportunities to serve and prosper, and to disseminate best practices to that end. The Consumer Bankers Association has long been a valued partner in that effort. We're counting on your to continue supplying the leadership that will assure the industry 's ability to meet the challenges of tomorrow -- just as it has met the challenges of the past.