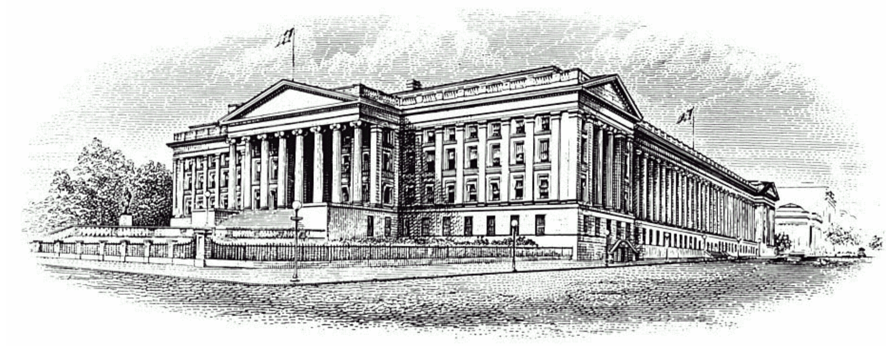

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

Embargoed Until 10:00 am **Contact: Betsy Holahan**
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ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
OF THE COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

Chairman Bachus, Ranking Member Sanders, and members of the Sub-Committee, I appreciate the opportunity to appear before you this morning to talk about an important issue: expanding access to mainstream financial institutions, such as banks, thrifts, and credit unions, for all individuals. Mr. Chairman, I commend you for focusing a national spotlight on this critical issue by convening today's hearing. I look forward to updating you this morning on the Treasury Department's efforts in this area.

The Treasury Department strongly believes that everyone should have the opportunity to establish a banking relationship with a regulated and insured financial institution. An account at an insured depository institution is a basic tool for individuals to build their own financial security.

While most Americans already have the comfort of keeping their money in insured accounts, other Americans use financial services of a different sort. They cash checks at a neighborhood storefront and pay bills in cash or with money orders. There may be a variety of reasons for this, but it is usually expensive, occasionally dangerous, and rarely the best option.

There are few reliable statistics available regarding the true size of the U.S. population who have no accounts with insured financial institutions. Some estimates indicate, however, that as many as one in ten families, or approximately ten million households, may not have bank accounts.[i]

Given the size of the population without mainstream financial institution relationships, the obvious question is why do so many people remain outside of the mainstream? Are they shut out of the system or have they made a conscious choice not to do business at traditional financial institutions? Surveys on this issue reveal varied responses to these questions.[ii] Some individuals cite financial reasons for not maintaining a bank, thrift, or credit union account; they say that bank fees or minimum balance requirements are too high. Other individuals suggest that they choose to use non-bank financial services because the types of accounts offered by traditional financial institutions do not meet their needs. For example, a person may not write enough checks or have enough month-to-month savings to make it worthwhile to maintain an account. Attitudes toward banks also appear to be a factor as a large number of people surveyed indicated that they are not comfortable dealing with banks or letting them know their personal financial information.

It is clear that there is no single reason that applies to all of the many people in the United States who do not have a relationship with a mainstream financial institution. It also seems clear that there is no single solution. Yet, because there are significant advantages to establishing an account at a bank, thrift, or credit union, the Treasury Department is committed to efforts whereby people have the knowledge to choose and the ability to access the financial services that in their view serve them best. Such choice, however, is illusory if people do not have accurate and adequate information, together with sufficient understanding of how to use that information, that will enable them to make educated decisions and access a range of financial services providers.

Consumers using non-bank financial services typically pay higher costs in the form of transaction fees for financial services than individuals with banking relationships. Recent Treasury research indicates that a worker can pay an average of $18 per month for cashing paychecks at a non-bank check casher.[iii] A Social Security recipient would pay an average of $9-16 a month to cash his or her government check. Relying on alternative service providers as a source of credit is similarly more expensive. The costs of loans from pawnshops, car-title lenders, payday lenders, and small loan companies can be very high as relative to the amounts borrowed.[iv]

Individuals also face heightened safety and security risks as a result of conducting financial transactions in cash. Carrying large amounts of cash is dangerous and keeping cash at home is not a whole lot safer. There have been a number of news stories describing how criminals have specifically targeted immigrants for robbery as they leave check cashing outlets because of the likelihood that these individuals are carrying a significant amount of cash.[v] And we are all familiar with tragic cases of people losing their life savings in fires because they kept it hidden in their homes in the form of cash.[vi] Unlike traditional depository institutions, alternative financial services providers cannot offer their customers insured deposit account products. Deposit accounts at insured financial institutions offer a safe place to keep money until the depositor is ready to spend or invest it.

It is not that we question the validity of products offered by alternative service providers. They can offer the advantages of immediacy and convenience, or other specialized services for specialized circumstances, for which the providers charge a premium. But America is in the choice business. Rather than seek to close down legitimate alternative services providers, we would like to continue the progress in this nation of expanding the choices available to consumers, as well as consumers' ability to understand and make use of those choices.

Establishing a banking relationship is taking a key step toward building a promising financial future. Individuals lacking basic financial services may have a reduced ability to manage their finances, and may be limited in planning and saving for the future. Without a banking account, it is nearly impossible to establish a strong credit record, which in turn is necessary to qualify for a good car loan, home mortgage, or small business loan at reasonable rates. A traditional banking relationship offers the account holder an opportunity to become familiar with fundamental financial concepts that are critical in asset building, and bank accounts are tools to help families establish and fulfill their savings goals and manage their money. And saving is the foundation for investment.

Greater use of mainstream banking services also aids in our country's fight against money laundering. As individuals move their money from informal financial services providers and rely more upon safer, insured depository institutions, the funds are removed from paths more likely to be frequented by those engaged in illegal activity.

The Treasury Department's most visible initiative to provide greater access to financial services is the First Accounts program. Through this program, Treasury has funded projects to connect low- and moderate-income individuals with mainstream financial services. The paramount goal of First Accounts is to assist a maximum number in establishing accounts with insured depository institutions. The fifteen First Accounts pilot programs provide an opportunity for Treasury to evaluate a variety of experiments intended to increase participation in mainstream financial institutions.

Additional goals of the program include the provision of financial education to the individuals served by the pilot programs to enhance the sustainability of the new financial relationships. Having relatively recently completed award allocation, our next step is to undertake research to evaluate the success of the funded projects and to understand what products, services, educational initiatives, marketing techniques, or incentives are most effective in achieving the goals of the First Accounts program. Although it is too early to predict because many of the projects have not yet reached their midway point, the Treasury Department has great hope that the pilot programs funded through First Accounts will provide a wealth of practical insight on how to develop replicable, self-sustaining programs for assisting a significant number of individuals to establish banking relationships with insured depository institutions.

Let me also highlight some other initiatives that Treasury is working on related to this effort. First, we have a number of activities underway that are aimed at improving financial education. A key function of the Office of Financial Education is to identify sound, effective financial education programs around the country and highlight their efforts. Many of the individuals who need these programs do not even know about them. The attention that the Treasury Department can bring to the programs will help connect individuals in need to good financial education programs. In addition, these financial education programs will then serve as examples for other programs. For instance, earlier this week, Treasurer Rosario Marin was in

Columbus, Ohio, to recognize the Ohio Credit Union League's Latino Financial Literacy Program, which has provided classes for more than 200 Hispanics in the Columbus area. The program includes many of the criteria that we have identified for effective programs, especially the inclusion of tools to measure results, and hopefully this program will expand throughout Ohio.

Our financial education initiatives at the Treasury Department are an important component of a larger, government-wide effort. We have been privileged to partner with some of the other agencies and departments engaged in financial education efforts, including the Department of Education and the Federal Reserve Board. And, when testifying on the subject of financial education last year, we provided information about no fewer than 10 federal departments and agencies, including the Treasury Department, the Federal Deposit Insurance Corporation, the Social Security Administration, the Department of Housing and Urban Affairs, and the Department of Labor, that do an excellent job in offering a wide variety of financial education programs and resources.

An additional Federal program that is supported by the Administration and contributes to the goal of moving individuals into the mainstream financial services sector is the Electronic Transfer Account (ETA) program. The ETA program, which is administered by Treasury's Financial Management Service, provides low-cost electronic bank accounts to Federal benefits recipients. To date, the ETA is offered in every state, the District of Columbia, and Puerto Rico through approximately 600 banks with more than 18,000 branch locations. Treasury plans to continue to examine the benefits of the ETA programs and, if necessary, make recommendations to the Administration and Congress on how to coordinate its ETA efforts with First Accounts to ensure that the participants in the program receive valuable services in the most cost-effective manner.

Another topic that is might be overlooked in this discussion is the remittance activity of many people in this country. The Inter-American Development Bank estimates that Latin American immigrants living in the United States send an average of $200 to their native countries an average of seven to eight times per year.[vii] These remittances have reached a level that surpassed $32 billion last year – approximately one third of total worldwide remittances.[viii] Many immigrants send remittances through a small number of alternative financial services providers. Limited competition in the remittance industry has contributed to high remittances costs. Although remittance charges have declined in the past two years, as we have encouraged greater competition, they still range from $15 to $26 for a typical $200 remittance. The cost varies depending on the type of institution used to send the money and the country where the money is being sent, but it can often exceed 20 percent, when transmission fees and exchange rate cost are both factored in.

But this is changing. With our encouragement and support, more and more traditional financial institutions and credit unions are recognizing that there is a concrete opportunity to attract a diverse consumer base by offering low cost remittance products. Offering remittance features as part of bank accounts can be an important marketing tool in reaching out to migrant workers. One important product that banks and credit unions can offer that money transmitters cannot is a federally insured checking or savings account. This can lay the foundation for new customers to save and build assets, establish a banking relationship, and learn about important tools in personal finance. At the same time, the increased competition will result in lower remittance costs. We support these and other efforts to make the process of sending remittances more affordable for the people who send them – most of whom are low-wage earners -- and those who receive them, people who often are in very great need.

Through our efforts in the Partnership for Prosperity with Mexico, we have encouraged the entry of new providers into the US-Mexico remittance market. The results have been dramatic, with transfer costs falling by more than half on some new product offerings. We see an increasing range of financial institutions entering the market, with innovative product ideas.

In closing, I would like to commend the efforts of the many banks, credit unions, and community- and consumer-based entities and groups – some of whom are represented on the panel that follows me this morning – who have recognized the problems faced by the segment of the population who do not have relationships with depository institutions and which institutions have undertaken innovative initiatives to bring these individuals and families into the financial mainstream.

Expanding access to financial services is a non-partisan issue that contributes to improved financial well being, particularly among many low- and moderate-income individuals. Opening an account at an insured depository institution provides the account holder with a number of benefits: the opportunity for wealth building; lower costs for financial services; security; knowledge of and familiarity with the fundamentals of personal finance; and the chance to build a credit history and qualify for credit on better terms. Because of these benefits, Treasury is committed to promoting policies that will encourage individuals to establish traditional account relationships with insured banks and credit unions.

To accomplish this goal, Treasury has focused on both educating individuals about the benefits of opening and maintaining deposit account and persuading depository institutions to expand and tailor services for this segment of the population. Thank you for the opportunity to appear here today. I look forward to working with Committee on these issues in the future.

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[i] James T. Moser, *Fostering Mainstream Financial Access: www.chicagofed.org/unbanked*, Chicago Fed Letter, Number 162, (Feb. 2001)(http://www.chicagofed.org/publications/fedletter/2001/cflfeb2001_162.pdf).

[ii] John P. Caskey, *Bringing Unbanked Households Into the Banking System*, Capital Xchange (Jan. 2002) (http://www.brook.edu/dybdocroot/es/urban/capitalxchange/article10.htm).

[iii] Moser, *supra* note i.

[iv] Caskey, *supra* note ii.

[v] *CUs Testify Provisions of the Patriot Act Could Harm Immigrants*, Credit Union Journal (Feb. 25, 2002).

[vi] Angela Shah, *Money in the Bank: Accounts Helping Wary Immigrants Park Cash Safely, Send It Home*, The Dallas Morning News (Aug. 19, 2001).

[vii] *Remittances to Latin America and the Caribbean*, Multilateral Investment Fund/Inter-American Investment Bank (Feb. 2002)(http://www.iadb.org/mif/website/static/en/study3.doc).

[viii] *Sending Money Home: An International Comparison of Remittance Markets*, Multilateral Investment Fund/Inter-American Investment Bank (Feb. 2003) (http://www.iadb.org/exr/prensa/images/RoundTablesFEB2003.pdf).