

Thank you and good morning. I appreciate the opportunity to speak with you today.

Thank you to Paul Horwitz for the invitation and to the Boston Alliance for Economic Inclusion for hosting today's event.

What are the challenges to offering financial products or services to the unbanked or underbanked? What are the opportunities? In the 2012 *FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked* banks saw fraud, underwriting, profitability, regulatory environment, and consumers' lack of understanding about financial products and services as major obstacles. Opportunities include expanding product and service offerings – including enhancing small-dollar loan products and marketing – utilizing partnerships to promote low cost accounts, and expanding retail strategies.

How do the findings of this report align with what we are seeing at the Division of Banks and what we are hearing in the Commonwealth and nationally?

The Division recently held a “town hall” meeting in preparation for a research and policy Conference in October sponsored by the Conference of State Bank Supervisors and the Federal Reserve System. The conference, to be held in St. Louis, will bring together academics, policymakers, bank supervisors, and community bankers to focus on the challenges and opportunities that community bankers face

in the 21st Century. At our local “town hall” meeting, we had bank management representing over 50 banks, both state and federally chartered, attend and participate in the discussion.

The greatest challenges for banks are the legislative and regulatory uncertainty and burden as well as profitability challenges due to shrinking margins and increased competition. The challenges with the “one size fits all” approach to regulation -- Basel, BSA, FASB, FinCEN requirements, concerns about the qualified mortgage (QM) and the potential ramifications – reflect why a “tiered” approach is crucial to preserving the community bank model to meet the needs of the underserved. The burden comes from all over – national, state, and even local ordinances – and adds to the cost of doing business while limiting banks’ abilities to serve the community. There is also increased competition from non bank entities-- person-to-person (P2P) online lending, payday lending, general purpose reloadable cards, and check cashers. These areas of increased competition reflect where there is consumer demand often unmet by traditional institutions and where the opportunities may exist.

We are spending more and more time overseeing our nonbank entities. This past fall, we transitioned our remaining non depository licenses to the Nationwide

Mortgage Licensing System. Massachusetts is the first state to transition all of our licensees onto the system; we now have our finance companies, money service businesses, and debt collectors on this nationwide system. The system allows for enhanced oversight while bringing improved communication across the states. We are also conducting more and more examinations with other states and federal regulators, including the Consumer Financial Protection Bureau (CFPB). For the first time, many of the large non depositories are being examined by a federal agency.

The actions and enforcement of non depositories is taking more time and resources. In the last couple months we have made headlines for taking actions against foreign transmitters, debt collectors, loan servicers, and payday lenders. We recently issued orders against money transmitters who were failing to complete consumer transfers to Brazil. The consumers impacted were sending money abroad to families and friends. The Division will not tolerate companies that jeopardize consumer funds. We hear what is happening from consumers as they submit complaints and inquiries to our office and we are conducting examinations and investigations in response. Regulators, both state and federal, are taking note of the changing market and we are increasingly working together and collaborating on oversight. Regulators will be looking more closely at prepaid cards as well as mobile payments and banking.

These new market competitors and retail strategies can help broaden access to the underbanked but they must be regulated properly so consumers are protected. A challenge to banks is to compete with these non depositories by offering additional products and services to underserved individuals and families.

There are opportunities for community banks to expand access to bank products and services and help meet the needs of unbanked or underbanked consumers. It is about understanding the community and the consumers in it. A bank must use technology to retain and identify customer needs throughout various stages of the customer's life from students facing the crushing debt of student loans to elders who are bombarded with scam offers. Many banks are also dealing with the challenge of declining population growth and economic decline.

Banks can, as the survey suggests, utilize partnerships with community organizations to promote checking and savings accounts. Banks are encouraged to participate in community outreach and education and a partnership is a great way to do so. An example of this locally, is the Massachusetts Community and Banking Council. This Council was established in 1990 as a collaborative endeavor of the Massachusetts Bankers Association and community representatives to encourage investment in the Commonwealth's low- and moderate-income communities. The Council is funded

through the financial support of member financial institutions. The Council has a program called Basic Banking for Massachusetts in which banks voluntarily provide low-cost checking and savings accounts that meet the basic checking and savings guidelines established by the Council. Currently, over 125 banks in Massachusetts, which includes over 85% of the Commonwealth's state chartered banks, participate in the Basic Banking for Massachusetts program. The Council also maintains a Basic Banking website (www.basicbanking.org) to assist new customers in finding a bank and bank products that best meet their families' needs. Such partnerships as this help banks offer and promote products to consumers.

In Massachusetts, state-chartered banks are required to offer 18-65 accounts. Any person who is 65 years of age or older or 18 years of age or younger can have a savings account and a checking account at a Massachusetts state-chartered savings bank, co-operative bank or trust company without having to pay a service, maintenance or similar charge. Also, by expanding electronic resources and services – online banking, online applications, card-based accounts – banks can attract and better retain customers. Additionally, branch hours, ATM locations, telephone banking, and multilingual services can build relationships with underserved consumers.

Banks can also offer additional transaction services to underserved individuals and families. The survey suggests banks “consider offering a broader range of auxiliary transaction services to both accountholders and noncustomers” including money orders, check cashing, and domestic or international remittances. The Division recently conducted a Check Casher Fee Study comparing the fees of check cashers to the basic banking checking account. In all cases, consumers utilizing check cashers would pay considerably more in fees than if they were using a Basic Checking Account. The survey found that consumers are still paying, on average, 5.5 to 35 times more per month the maximum fees charged to maintain a Basic Checking Account to cash weekly payroll checks and write money orders. To protect the citizens of the Commonwealth, the Division, often in conjunction with law enforcement agencies, takes action against individuals or entities found to be engaging in unlicensed check cashing activity. Unlicensed check cashers may charge even more exorbitant fees far in excess of the rates charged by licensed companies. A significant advantage of a Basic Checking Account (over paying fees to check cashers) is that it will foster the development of a banking relationship. This type of relationship is essential in that it can be used to lay the groundwork for establishing future credit relationships.

As our recent actions against illegal online payday lenders show, there is consumer demand for short term, small dollar loan products. The FDIC survey recommends that banks better market their existing unsecured loan products. Many community banks are wary of developing payday like products given the reputational risks. However, given their superior delivery channels, lower cost of funds, and underwriting skills, banks and credit unions are uniquely positioned to develop a lower cost, short term, small dollar product to meet the needs of consumers who find themselves in an emergency situation. Developing banking relationships will assist in creating greater lending opportunities for the bank while increasing access to credit and other banking services to consumers throughout the Commonwealth.

This week the state is promoting "Housing Week" to make various announcements and promote housing initiatives across the Commonwealth. On Monday, the Governor announced the Massachusetts Homeownership Compact. The parties to the Massachusetts Mortgage Compact share the goal of providing mortgage loans for 10,000 first-time home purchases over the next five years by individuals and families with household incomes below the area median income. The Governor along with various banks, credit unions, and mortgage companies, MassHousing and the Massachusetts Housing Partnership, and the Massachusetts Community and

Banking Council are all parties to the contract and pledge their commitment to this initiative. Also, this week, I announced the Division of Banks grant recipients. The Division is awarding \$1.3 million in grants to eleven regional foreclosure education and prevention centers and ten first-time homebuyer counseling programs across the Commonwealth. We fund the grants with fees received from the licensure of mortgage loan originators. The Division will also be announcing the release of the final foreclosure regulations next week. The rules require lenders and servicers to take reasonable steps to avoid foreclosure for certain mortgage loans. A notice must be sent to borrowers of certain mortgage loans of their right to pursue a loan modification and, if a modification is requested, the lender must conduct an analysis to determine the net present value of a loan modification for these types of loans. If the net present value of a modification is greater than the cost of foreclosure, the lender must offer a modification. These "Housing Week" initiatives position the Commonwealth for a stronger, healthier housing market.

As Commissioner of Banks and as a member of the board of the Financial Literacy Trust Fund, consumer financial education and literacy is crucial. The unbanked, underbanked, and underserved individuals and communities, including those of our gateway cities and towns, need financial education. The goal is to provide

consumers with the information they need to make wise financial choices. There are many noteworthy efforts within the state, within local governments, by schools, by banks, and by community organizations and partnerships. Many of these efforts are joint endeavors. Collaboratively, we can help expand financial products and services to meet the local needs, provide financial education, and develop and distribute resources to reach the underserved communities and consumers of the Commonwealth.