

Minutes
of
The Meeting of the FDIC Advisory Committee on Economic Inclusion
of the
Federal Deposit Insurance Corporation
Held in the William Seidman Center
Federal Deposit Insurance Corporation Building
Arlington, Virginia
Open to Public Observation
October 29, 2014 – 9:09 A.M.

The meeting of the FDIC Advisory Committee on Economic Inclusion (“Come-IN” or “Committee”) was called to order by Martin J. Gruenberg, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation (“Corporation” or “FDIC”).

The members of Come-IN present at the meeting were Robert A. Annibale, Global Director, Citi Microfinance and Community Development; Ted Beck, President and Chief Executive Officer (“CEO”), National Endowment for Financial Education; Kelvin Boston, Executive Producer and Host of PBS’ *Moneywise with Kelvin Boston*; José Cisneros, Treasurer, City and County of San Francisco, California; Martin Eakes, CEO, Self-Help/Center for Responsible Lending, Durham, North Carolina; Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen A.M.E. Cathedral of New York; Ester R. Fuchs, Professor, School of International and Public Affairs, Columbia University; Wade Henderson, President and CEO, Leadership Conference on Civil Rights, and Counselor to the Leadership Conference on Civil Rights Education Fund; Andrea Levere, President, Corporation for Enterprise Development, Washington, D.C.; Patricia A. McCoy, Connecticut Mutual Professor of Law and Director of the University of Connecticut Law School Insurance Law Center; Alden J. McDonald, Jr., President and CEO, Liberty Bank and Trust Company, New Orleans, Louisiana; Bruce D. Murphy, Executive Vice President and President, Community Development Banking, KeyBank National Association; J. Michael Shepherd, Chairman and CEO, Bank of the West and BancWest Corporation; Phillip L. Swagel, Professor in International Economic Policy, University of Maryland, Senior Fellow at the Milken Institute and a visiting scholar at the American Enterprise

Institute; and John C. Weicher, Director, Hudson Institute's Center for Housing and Financial Markets.

Michael Barr, Professor of Law, University of Michigan Law School, Manuel Orozco, Senior Associate at the Inter-American Dialogue and Senior Researcher, Institute for the Study of International Migration, Georgetown University, John W. Ryan, Executive Vice President, Conference of State Bank Supervisors, Robert K. Steel, Partner and CEO, Perella Weinberg Partners, New York, New York, and Peter Tufano, Peter Moores Dean and Professor of Finance, Said Business School, Oxford University and Founder and CEO of D2D Fund, were absent from the meeting.

Members of the Corporation's Board of Directors present at the meeting were Martin J. Gruenberg, Chairman, Jeremiah O. Norton, Director (Appointive), Thomas Curry, Director (Comptroller of the Currency) and Richard Cordray, Director (Consumer Financial Protection Bureau ("CFPB")). Roberta K. McInerney, Designated Federal Officer for the Committee and Deputy General Counsel, Consumer, Enforcement/Employment, Insurance and Legislation Branch, FDIC Legal Division, also was present at the meeting.

Corporation staff who attended the meeting included Willa M. Allen, James A. Anderson, Michael W. Briggs, Lariece M. Brown, Luke H. Brown, Susan Burhouse, Kim Chen, Alexander S. Cheng, Karyen Chu, Patricia A. Colohan, Christine M. Davis, Timothy W. Delessio, Patricia Devoti, Paola L. Diaz, Dianne E. Dixon, Bret D. Edwards, Keith S. Ernst, Ralph E. Frable, Ryan M. Goodstein, Janet R. Gordon, Shannon N. Greco, Emerson B. Hall, Angelisa M. Harris, Ardie Hollifield, Jonathan N. Miller, Jamal R. Mohammad, Janet V. Norcom, Joyce M. Northwood, Yazmin E. Osaki, Richard Osterman, Mark E. Pearce, Teresa Perez, Sylvia H. Plunkett, Joyce M. Raidle, Sherrie Rhine, Paul Robin, Richard M. Schwartz, Surge Sen, Dhruv Sharma, Patience R. Singleton, Thomas E. Stokes, Lori Thompson, Clinton Vaughn, Eloy A. Villafranca, Jeffrey Weinstein, Mindy West, and James Yagley.

William A. Rowe, III, Deputy to the Chief of Staff and Liaison to the FDIC, Office of the Comptroller of the Currency, also was present at the meeting.

Chairman Gruenberg opened and presided at the meeting. He began by thanking the participants for attending and providing an overview of the meeting agenda, advising that the first morning panel would provide two presentations, one by a representative from Citigroup on their newly-released transaction account product that is consistent with the FDIC's model transaction account and appears to be very responsive to the needs of unbanked and underbanked households, and the second by a representative from KeyBank on a small dollar loan product they have been offering with considerable success that is believed to be both a sustainable product for consumers and an effective business product for KeyBank; that the second morning panel would present the results of the *2013 FDIC National Survey of Unbanked and Underbanked Households* ("2013 survey"), followed by an opportunity for the Committee to discuss the

results. He next indicated that the luncheon speaker would be Eric Stein, Staff Director for Director Melvin L. Watt at the Federal Housing Finance Agency; and that the afternoon session would focus on presentations by the leaders of the “BankOn 2.0” initiative.

Next, Chairman Gruenberg advised that the Committee was privileged to be joined at today’s meeting by FDIC Director Norton, as well as Comptroller of the Currency Curry and CFPB Director Cordray, noting that they also are members of the FDIC Board of Directors. Director Cordray noted that the CFPB and the FDIC had common interests in the subjects being discussed by the Committee and that he appreciated the productive partnership with the FDIC. Chairman Gruenberg then introduced Jonathan Miller, Deputy Director, Policy and Research Branch, Division of Depositor and Consumer Protection (“DCP”), moderator for the panel discussion on “Safe Banking Products.”

Mr. Miller then briefly discussed safe transaction accounts, noting that these accounts are low cost, electronic, checkless checking accounts with no minimum balance requirements, low monthly charges, and no overdraft or hidden fees; that the FDIC’s research has indicated that overdraft charges play a key role in driving low- and moderate-income (“LMI”) households out of the banking system; and that an important provision of safe transaction accounts was that they have no overdraft fees. He noted that safe accounts, which were designed with the Committee’s input, are now offered by banks in counties in which about 78 percent of the general U.S. population live, which includes counties with higher percentages of minority and LMI populations. He also noted that considerable work remained because there are still areas where safe accounts are not available and that account availability alone does not mean that they have been adopted by unbanked or underbanked households. Mr. Miller then advised that the first panelist, Rob Beck, Managing Director, Chief Operating Officer of the Retail Bank and Head of Retail Distribution, U.S. Consumer Banking, Citigroup, would discuss Citibank’s expansion of its safe account to a robust national effort. Mr. Miller noted that another financial need of underserved households was affordable, small dollar credit, noting that, in 2010, the FDIC conducted the Small Dollar Lending Pilot, which demonstrated the usefulness of a closed-end small dollar loan product; and that the second panelist, Cindy Balsler, Senior Vice President, KeyBank, would discuss KeyBank’s innovative open-ended small dollar loan product.

Mr. Beck made a presentation about the Access Account which Citibank launched in July 2014. He noted the Access Account was designed to be affordable, simple and accessible, and to have no overdraft fees; that the Access Account promotes responsible finance in that it is a transactional account with digital access; that customers have easy options available to avoid monthly service fees; that it has no overdraft fees; that it is checkless to minimize the likelihood of overdrafts; and that ACH payments that would cause overdrafts are systematically prevented. He also noted that the “no overdraft fees” feature of the Access Account was in addition to Citibank’s other consumer friendly policies: (1) never having allowed one-time debit point-of-sale or ATM withdrawal overdrafts; (2) not imposing continuous day overdraft fees; and (3) processing checks and ACH transactions from low to high dollar amounts.

Mr. Beck next described key features of the Access Account. He explained that, first, in order to make the product easy to open, the account does not require a minimum opening deposit and can be opened in any branch nationwide or through Citibank's call center. A second important aspect, he noted, was the need to ensure a clear path for the Access Account to be free by providing that the \$10 monthly service fee would be waived if the client had one direct deposit per month, one bill payment per month, or had a \$1,500 average monthly balance. Mr. Beck continued, explaining that another critical aspect of the account was to maximize the clients' control of their finances by providing that the account comes with no overdraft fees and Citibank's full suite of products and services, including tools such as low balance alerts, bill payment alerts, the ability to track spending by category, and the ability to create a monthly budget. Finally, he noted that a fourth important element was easy access by providing that the account allows use of 34,000 no-fee ATMs nationwide and free use of Citibank's online, mobile, and tablet features, which include bill payment capabilities, e-statements, and the ability to make person-to-person money transfers. He emphasized that the Access Account also included, at no charge, the capability of remote deposit capture through smartphones, and access to Citibank's branch network and call center, as well as the availability of money orders or bank checks for a service fee. He described how Citibank was promoting the Access Account, including in-house sales brochures, a \$50 offer for opening and funding an account, and working with community and advocacy groups, noting that Citibank followed the Pew Charitable Trust model for outlining product features, including how fees could be incurred and avoided. Mr. Beck also described an example of a previously unbanked person who became an Access Account customer, explaining that the customer, a security guard with about \$36,000 annual income and no previous engagement with the formal banking system, came to a Citibank branch to obtain cash from a prepaid card; that a branch employee engaged him in a conversation about his banking needs and was able to offer the Access Account; and that, since opening the account, the client has established direct deposit, and used online banking, mobile banking, and ATMs. He emphasized that the new client previously did not have a credit history and, since opening the Access Account, has discussed opening a secured credit card account.

Mr. Beck provided statistics on the Access Accounts, noting that the accounts had been offered for only two months; that 47 percent of the Access Account customers were new-to-bank, while 53 percent were existing customers; that 44 percent of Access Accounts were opened in LMI branch areas, while 56 percent were opened in the remaining branch footprint; and that the Access Account was attracting a wide audience of clients from the unbanked, underserved, and existing clients, as well as from a variety of income levels. He reported that 50 percent of Access Account clients have incomes below \$30,000; that 35 percent have incomes between \$30,000 and \$75,000; and that 24 percent have incomes above \$75,000. He noted that Citibank encourages customers to use all the banking channels that suit their needs; that 77 percent of Access Account clients enrolled in online banking; that 40 percent use mobile banking, compared to 72 and 31 percent, respectively, for the next higher tier product; that 55 percent of Access Account customers utilized debit cards and 54 percent used ATMs, compared to 46 and

43 percent, respectively, of customers of the next higher tier product; and that, while there was a “seasoning” element to the use of bill pay, after only two months, 14 percent of Access Account holders used it, compared to 7 percent of the next higher tier account. Before turning the discussion over to Ms. Balsler, he noted that, for customers who overdraw their accounts frequently, Citibank periodically communicated ways for those customers to avoid overdraft fees, and has been able to offer such customers the Access Account in which overdrafts are not possible; and that Citibank planned to allow online Access Account opening starting in January 2015, and to offer a linked savings account beginning in April 2015.

Ms. Balsler then made a presentation about KeyBank’s line of credit product, KeyBasic, noting that the pilot program for KeyBasic was started in 2011, making it available only after a discussion indicated it would be the best fit for the client. She noted that KeyBank used three guiding principles in developing the KeyBasic line of credit: (1) the product needed to be transparent and easy to understand; (2) the product had to be legally compliant; and (3) the clients who used the product must have a clear motivation and path to reducing the line to a zero balance to ensure using the line of credit does not create a cycle of dependency. She explained that KeyBasic was an unsecured revolving line of credit that was distinct from the bank’s small dollar loan product; that KeyBasic could be used for overdraft protection for all of the bank’s accounts, except for an account which does not allow overdrafts; and that KeyBasic had a variable interest rate indexed to the prime rate, with a minimum credit line of \$250 and a maximum that was recently increased from \$1,500 to \$5,000. She also explained that the maximum line was increased to close a gap between the KeyBasic product and the KeyBank’s next line of credit, allowing clients to move upward in their credit limit smoothly and appropriately. She noted that KeyBasic’s repayment method was designed to be simple to understand, with a repayment of 1/60th of principal plus interest; that KeyBasic’s fee structure was simple with a \$25 annual fee, a late fee, a returned item fee if a payment check is rejected, and an overdraft advance fee; and that KeyBasic’s overdraft advance fee was the same as the fee on KeyBank’s other lines of credit, which was 10 percent of the amount advanced, not to exceed \$10 with a maximum of \$100 in a month. She emphasized that the overdraft advance fee was designed to encourage the client and their relationship manager sufficient time and motivation to solve overdraft problems without charging more fees.

Ms. Balsler described the KeyBasic portfolio as including 5,300 client accounts currently open with about \$6 million in commitments. She stated that revenue from KeyBasic was earned primarily in spread, followed by late charges, annual fees, and advance fees; that opening, accessing, and repaying a KeyBasic account can be done in a branch, online, or through KeyBank’s call center; and that repayment methods for KeyBasic have migrated somewhat toward electronic payments between 2012 and 2014. She noted that KeyBank has expended significant effort on educating its clients about KeyBasic’s features and how to avoid fees; and that enhancements to the KeyBasic product have included: increasing the credit limit; approving the line of credit at the same time as opening other accounts; and allowing activation of the account by using a toll-free telephone number. She also noted that KeyBank has introduced

several new scorecards to determine if it will lend money on the KeyBasic product; that one scorecard being used looks at whether the client has a credit score that meets KeyBank's standards for lending and whether the client has the ability for repayment; and that, for clients who do not have a credit score or a thin credit file, another scorecard allows KeyBank's decision center the opportunity to look at whether the client has successfully managed other accounts with KeyBank and should be offered a KeyBasic line of credit with a maximum credit limit less than the \$5,000 maximum in an effort to help build or improve the client's credit file. Ms. Balsler concluded her presentation by advising that, in the future, KeyBank would like to increase the KeyBasic credit limits for clients who were successful in building their credit score, to introduce other credit products for such clients, and to make sure bankers interacted with clients so that clients were aware of the products; and that KeyBank recently launched a program called Key to Financial Wellness, which would help clients understand how they can continue to improve their credit scores and be better informed in selecting financial products.

In the discussion that followed, Committee members offered a number of comments and suggestions. Member Levere asked if Citibank had information on what motivated people to open the Access Account. In response, Mr. Beck stated that Citibank did not yet have strong data on the customers' decision making process because the program was so young, but noted that the bank had done extensive training of its bankers so that they could explain the product features, particularly the path to a free account; that anecdotal reports indicated that the initial motivation for opening the accounts was that the accounts represented a way to enter or remain in the banking system in an affordable way; and that the account's ability to access the full breadth of Citibank's channels also was a persuasive factor. Mr. Beck also responded to Member Levere's question about how much personal engagement was involved in the Access Account by advising that the account was sold primarily through personal connection.

Regarding the KeyBasic product, Member Levere noted that KeyBank appeared to be creating a proxy credit score internally for people who had thin or no credit files and asked how KeyBank saw that approach building out. Ms. Balsler responded by advising that KeyBank had been creating behavioral client experience scores for some time; that KeyBank starts building a client experience score from the first day of the relationship; that the score can be relied upon somewhat after a few months; and that it has a richness of data after about six months so that it can be easily used in the credit decision process. Comptroller Curry emphasized that banks have a wealth of information about account relationships that can be the basis for predictive models, which are particularly useful in the area of affordable small dollar lending; that KeyBank's effort to craft the KeyBasic product was consistent with the OCC's intent in encouraging banks to develop alternatives to deposit advance products about which the OCC had concerns; and that the OCC was pleased that national banks can be innovative in this area where consumers need an alternative, as well as in the Access Account product.

Member McCoy said that both products were good news and asked about Citibank's ideas for increasing the bill pay participation rate. Mr. Beck replied that Citibank called its

approach “teaching digital” and that its bankers have score cards that show clients’ digital usage and indicate, for example, whether they use online banking, bill pay, or mobile banking; and that, if the score card indicates that the client does not use these channels, Citibank can offer to teach them how those channels work to allow the client to become more fully engaged; and that, as long as clients are aware that they can avoid fees by using them, usage rates would continue to increase. Member McCoy also asked whether the KeyBank revenue from late fees was due to a problem with the performance of the product or the size of the fee. In response, Ms. Balsler explained how the late fee charges operated, noting that KeyBank was concerned about the late fee spike in revenue and was exploring what could be done about it; that it appeared that clients who paid the fee were missing the due dates by days, not weeks; that the problem might be caused, for example, by clients who changed jobs and began receiving their pay on the 15th of the month when the due date for their payment was on the 13th of the month; and that KeyBank was exploring, through letters and individual contacts by local bankers, whether adjustments to the payment due date would help avoid clients being stuck in a cycle of paying late fees.

In response to questions from Member McDonald regarding account holders’ costs for the financial tools and Citibank’s financial model for the Access Account product, Mr. Beck confirmed that the Access Account provided account holders with access to Citibank’s bill pay, track spending, and other digital channels at no cost; that Citibank was close to break-even on a marginal basis for account holders who transferred from other Citibank accounts; and that the expectations are that the accounts would become profitable as balances increased and a linked savings account was added to the product.

Member Shepherd asked about the differences between credit cards and the KeyBasic product and clients’ use of the client experience scores. Ms. Balsler responded by noting that there were customers who could qualify for credit under the KeyBasic product who would not qualify for a KeyBank credit card; and that KeyBank does not publish a client experience score to the client, but they would be able to see increases in their credit bureau credit scores after successfully using the KeyBasic product.

Continuing the discussion, Member Swagel inquired about the safety of the Access Account to both consumers and to Citibank, and whether a person who is listed negatively on Chexsystem would be excluded from an Access Account. In response, Mr. Beck advised that Citibank uses Chexsystem and would deny opening an account for an instance of fraud or one unpaid or paid abuse in the aggregate of \$500; that Citibank was currently amending its policy so that the Access Account would be available to more clients; and that Citibank had an exception process that allowed clients to become eligible if they explain what had occurred in the past and show proof of making whole on the previous problem.

Member Henderson inquired about the demographics of people who were rejected for the KeyBasic product and the steps taken to educate those individuals who were rejected. Ms. Balsler replied that most applications and rejections occur in branches, which have financial education

tools that can be used to respond to rejected clients' education needs; that branch bankers see a rejection as an opportunity to respond to the individual client's needs through financial counseling; and that educational opportunities were more limited when people applied online because they often paid little attention to the bank's subsequent letters or telephone messages. Member Murphy, also a representative of KeyBank, added that KeyBank has a robust financial education system which can offer coaching and an opportunity to reapply after they have received the necessary support. Regarding his earlier inquiry about profiles of rejected applicants, Member Henderson explained that he thought that such disaggregated "big data" would be very helpful for organizations trying to identify and educate people who were interested in obtaining credit. Member Boston suggested that KeyBank had a business opportunity in letting people know that it developed client experience scores based on customer use of banking products; and that many people were interested in ways to improve their credit scores, but did not often think of turning to a bank for help.

In response to Member Boston's question about Citibank's plans to market the Access Account, Mr. Beck said the initial emphasis was to drive sales through customer traffic in branches, but the bank was considering additional approaches. Member Annibale, also of Citibank, responded to a question from Member Boston regarding Citibank's work with non-profit organizations to promote the Access Account, advising that Citibank had ongoing contact with a variety of organizations, including civil rights organizations and housing associations that reach deep into their communities.

Member Eakes asked about the economics of the Access Account program and how it was sustainable for Citibank. In response, Mr. Beck stated that, on the revenue side, the spread on the balances drives the revenue; that, on the expense side, the fact that there are no overdraft fraud costs or check processing costs which, together with electronic statements, have kept Citibank's costs low; and that the product's sustainability also was due to its ability to attract a wide range of clientele, including both high balance and low balance customers. Noting that the KeyBasic product had similarities to a credit card, Member Eakes asked if there were situations where KeyBank would advise a customer to apply for a credit card instead. Ms. Balsler replied that many KeyBasic clients would not qualify for a credit card, but may be able to start with a KeyBasic line of credit at a lower maximum amount; that, if a customer's financial needs are to make everyday payments, they may want to obtain a credit card; and that, if the customer only needed to have an emergency fund available, the KeyBasic product might be more appropriate. In response to Member Eakes asking whether the KeyBasic product was structured to avoid any regulatory requirements associated with credit cards, Ms. Balsler advised that KeyBank had designed the KeyBasic account without a credit card component, and that the decision to do so was not affected by regulatory requirements concerning credit cards.

Chairman Gruenberg then thanked both presenters, noting that it was gratifying to hear of financial institutions thoughtfully addressing the challenges of customers who were unbanked and underbanked. He also noted that the Committee had worked to develop a model transaction

account; that the Access Account product was truly responsive to the issues that the Committee had tried to address when that model transaction account was developed; that the KeyBasic product almost defines what the small dollar loan issue is about; and that KeyBank was able to offer a product responsive to a significant market need in a way that was sustainable for the customer, represents an important development. Chairman Gruenberg closed the session by emphasizing that the potential for pairing a low-cost transaction account with a small dollar loan product would offer a package of services that was really responsive to the needs of unbanked and underbanked households.

Next, Keith Ernst, Associate Director, Consumer Research and Examination Analytics, Policy and Research Branch, FDIC Division of Depositor and Consumer Protection (“DCP”), presented the results of the third national survey of unbanked and underbanked households, noting that the survey is a representative sample of data on U.S. households collected in cooperation with the U.S. Census Bureau that has become the benchmark resource for insight into the unbanked and underbanked populations. He advised that the panel’s first session would provide an update on some of the findings in previous surveys, as well as some new insights; that Ryan Goodstein, Senior Financial Economist, DCP, would discuss the new baseline numbers and explore new findings related to how life events affect transitions in and out of the banking system; that Joyce Northwood, Senior Financial Economist, DCP, would then discuss the latest numbers on account ownership and new findings related to use of direct deposit and automated transfers between accounts, as well as new information on prepaid cards; and that Karyen Chu, Chief, Consumer Research and Examination Analytics, DCP, would conclude the presentation with a discussion of technology and other methods used to access bank accounts in the U.S. Mr. Ernst also advised that the second session of the panel would focus on the implications of the survey findings.

Mr. Goodstein began with a brief discussion of some of the key findings from the 2013 survey, noting that an estimated 7.7 percent of households in the U.S. are unbanked, with no bank account, and that 20 percent of households are underbanked, having used alternative financial services (“AFS”) within the past year despite having a bank account. He observed that these estimates translate into approximately 9.6 million unbanked households and 24 million underbanked households; that approximately two in three households in the U.S. are fully banked, having a bank account and not using AFS in the past year; and that approximately five percent of households have a bank account but have not been categorized as either underbanked or fully banked due to insufficient information. He emphasized that the estimated proportion of unbanked households declined from the 2011 unbanked rate of 8.2 percent; and that this decline is primarily attributable to changes in the economy, specifically declining unemployment rates and slightly higher household income levels, as well as longer term demographic trends in the U.S. toward slightly older and better educated households. He noted that the definition of an underbanked household has changed in the 2013 survey report to include auto title loans in the various AFS products that were asked about in the 2013 survey.

Mr. Goodstein noted that, consistent with previous survey reports, the 2013 survey showed a wide variation in the rates of unbanked and underbanked across households by demographic groups; that unbanked rates declined sharply with increasing income, with rates as high as 28 percent for households earning less than \$15,000 to less than 2.0 percent for households earning \$50,000 or more a year; that underbanked rates showed a similar but less dramatic decline from one income category to another; and that unbanked and underbanked rates also declined with the age of the household, with households aged 15 to 24 years having an unbanked rate of 16 percent and an underbanked rate of 31 percent, which was substantially higher than the 3.5 percent unbanked rate for households aged 65 years or more. He also noted that certain racial and ethnic groups are more likely to be unbanked or underbanked, with black and Hispanic households having substantially higher unbanked and underbanked rates than white, non-Hispanic households; that new estimates in this report of unbanked and underbanked rates by disability status indicate substantially higher unbanked and underbanked rates for households where the householder is disabled; and that, with respect to household structure, households of married couples had lower unbanked and underbanked rates than single-family households headed by a female or male. Concluding his review of unbanked and underbanked rates by demographic groups, he noted that there is a wide geographic variation in unbanked rates across states, with the Southern region of the U.S. showing the highest rate of unbanked households at 9.2 percent compared to other regions of the country; and that underbanked rates followed a similar pattern, with states in the Southern region having the highest underbanked rates.

Mr. Goodstein briefly reviewed the survey findings regarding the reasons for unbanked households not having an account, noting that it would be difficult to compare the results across survey years because of several changes in the most recent survey questions. He advised that, consistent with some of the past surveys, approximately 58 percent of unbanked households indicated that they do not have enough money to have an account, with approximately one-third indicating this reason as the main reason for not having an account; that the second most commonly cited reason for unbanked households not having an account was that they do not like dealing with or do not trust banks, with approximately one-third indicating this choice as a reason; and, as a third reason, approximately one-third of unbanked households indicated that they did not have an account because account fees were too high or unpredictable, with unbanked households that have had an account in the past being almost twice as likely to cite this reason as a main reason for not having an account compared to those that have never had an account in the past.

For the first time, Mr. Goodstein continued, the 2013 survey included questions related to transitions in household banking status. He briefly discussed the survey findings regarding recent household entrances and exits of the banking system, as well as the factors affecting those transitions, advising that slightly more than one-half of unbanked households have never had an account in the past, and slightly less than one-half were “previously banked” and did not have a bank account at the time of the survey but had one in the past; that approximately 80 percent of

previously banked households had a bank account but more than one year ago; and that approximately 20 percent of previously banked households had a bank account within the past year but are currently unbanked. Focusing on the likelihood that unbanked households would open an account in the future, he reported that approximately 75 percent of "recently unbanked" households that had an account within the past year but were unbanked at the time of the survey indicated that they were very likely or somewhat likely to open an account within the next 12 months; that approximately 43 percent of recently unbanked households that had a bank account but more than one year ago indicated that they were likely to open an account within the next 12 months; and that approximately 25 percent of households that have never banked indicated that they were likely to open an account within the next 12 months. He noted that 6.9 percent of all households were categorized as "longer-term unbanked" households that are currently unbanked and have been unbanked for more than a year; and that most households did not change banking status in the past year, but approximately 2.6 million households either entered or exited the banking system in the past year, representing approximately 2.5 percent of all households. Noting that there are substantial differences in the composition of households across these groups, he advised that households that have recently changed banking status have characteristics that are more similar to those of unbanked households, such as lower income, less education, and younger age, than those of longer-term banked households; and that certain characteristics such as unemployment are disproportionately represented among the recently unbanked, suggesting a strong link between employment status and entry and exit of the banking system.

With respect to major life events affecting household transitions in banking status, Mr. Goodstein reported that the survey findings suggest that financial life events such as loss of income or employment, new employment, or changes in household expenses are much more closely linked to changes in household banking status than nonfinancial life events. He noted that certain financial life events occurred disproportionately more frequently among the recently banked and recently unbanked, with approximately 45 percent of recently unbanked households experiencing a significant income or job loss in the past year; that approximately 37 percent of recently banked households experienced a significant income or job loss in the past year; and that the pattern was similar for households that experienced new employment. He also noted that these findings generally suggest that households recently entering or exiting the banking system were more likely to have experienced substantial turmoil and volatility in their economic lives; that approximately 34 percent of households that recently became unbanked experienced a significant job or income loss in the past year; that approximately 20 percent of households that recently became banked reported that a new job contributed to their opening an account; and that, households that recently became banked, the most commonly cited reasons for opening an account were to receive direct deposits, pay for everyday purchases, write checks or pay bills, or deposit money in a safe place.

Next, Ms. Northwood briefly discussed bank account ownership and direct deposits, noting that approximately one-third of underbanked households and more than 20 percent of fully banked households do not have a savings account; and that more than 80 percent of all

households have money directly deposited into an account, with the majority of households having funds deposited into their checking accounts rather than savings accounts. She then moved on to household use of prepaid cards, advising that the 2013 survey asked a number of questions about general purpose reloadable prepaid cards, which have emerged as a fast-growing method for households to meet their financial transaction needs, particularly among the unbanked. She noted that these cards can be used to pay bills, withdraw cash at ATMs, make purchases, deposit checks, and receive direct deposits; that prepaid card use has increased for all households, with unbanked households having the highest rate of use at 27 percent using prepaid cards at some point in the 2013 survey—an increase from 18 percent in the 2011 survey; and that the majority of prepaid card users were unbanked and underbanked households, with approximately 55 percent of households using prepaid cards in the past 12 months and two-thirds using prepaid cards in the past 30 days. She also noted that most users of prepaid cards, particularly unbanked households, rely on prepaid cards for basic financial transaction needs generally associated with checking accounts; that almost one-half of unbanked households used their prepaid cards to pay for everyday purchases or bills, and almost one-third used prepaid cards to receive payments; and that a slightly different pattern emerged for fully banked households using prepaid cards, with almost one-half using prepaid cards for these two basic transaction reasons and one-third reporting other reasons. Ms. Northwood concluded the discussion of prepaid cards by advising that unbanked households are likely to use prepaid cards more frequently in comparison to banked prepaid card users, with almost 17 percent of unbanked households more likely to have used prepaid cards in the past 30 days and almost 50 percent more likely to have reloaded their cards in the past 12 months; that almost 50 percent of unbanked households using prepaid cards are more likely to open a bank account in the future; and that approximately 75 percent of unbanked households using prepaid cards have also used some transaction AFS such as a check cashing or money order in the past 12 months, with one-third of unbanked household prepaid card users also using credit AFS such as a payday loan or auto title loan in the past 12 months.

Ms. Chu then briefly summarized the 2013 survey results on household AFS use, advising that approximately 25 percent of all households had used at least one AFS in the past 12 months, and 12 percent used one in the past 30 days; that transaction AFS—money orders, check cashing, and international remittances—continue to be more widely used than credit AFS products, with approximately 22 percent of households using transaction AFS products in the past 12 months compared to approximately seven percent using credit AFS products; that AFS use continued to be relatively high among unbanked households, with slightly more than 60 percent having used a transaction AFS in the past 12 months and 17 percent having used a credit AFS; and that unbanked households were more likely to have used an AFS in the past 30 days than banked households, with a higher proportion of unbanked households likely to have used more than one type of AFS in the past 12 months compared with banked households. Noting that the 2013 survey asked about the locations from which households obtained transaction AFS, she reported that the most common locations for obtaining transaction AFS were grocery, liquor, convenience, or drug stores, with approximately 33 to 40 percent of households obtaining their

transaction AFS from these locations; that a relatively large proportion of households obtained their transaction AFS from large retail and department stores, notably for check cashing; and that unbanked households were more likely than underbanked households to have obtained their transaction AFS from standalone AFS providers.

Noting that the 2013 survey, for the first time, included results on technology and banking methods used by households to access their bank accounts, Ms. Chu reported that bank tellers and online banking were the primary method of banking used by approximately one-third of banked households; that almost 8 out of 10 banked households used a bank teller in the past year; that slightly more than one-half of banked households had used online banking methods; and that almost one-quarter had used mobile banking at least once in the past 12 months. She also reported that underbanked households were less likely to use online banking as their primary method of accessing their accounts than fully banked households, and more likely to use mobile banking; and that bank teller use as the primary banking method is highest for the lowest income households, decreasing sharply as income increases, while online banking use as the primary method increases sharply as income increases. She noted that approximately 71 percent of households had used two or more methods to access their accounts within the past year; that 54 percent of households that used bank tellers as their primary method of access used it as the only method of access, while only 11.6 percent of the households that primarily used online banking used it exclusively; and that 72 percent of the households that primarily used online banking used two additional methods, while almost 85 percent of households that primarily relied on mobile banking used three or more additional banking methods. She also noted that households that primarily used only bank tellers to access their accounts were more likely to have an age of 65 or older, under \$30,000 in annual income, and lower levels of education; and that seven out of ten households that primarily used online banking or mobile banking also had used a bank teller in the past year. Turning to the use of mobile technology as a method of banking, she briefly summarized some key findings, noting that a majority of households that used mobile banking relied on online banking as their primary banking method; that underbanked households were more likely to use mobile banking as their primary banking method; that mobile banking was used primarily to monitor account balances and transfer funds; and that only 25 percent of households used mobile banking to deposit checks. She concluded the presentation by directing Committee members to the website at www.economicinclusion.gov for all of the findings of the 2013 survey report, noting that a custom data tool has been added which allows users to generate custom tables based on the survey data.

Mr. Ernst then announced that the meeting would briefly recess. Accordingly, at 11:20 a.m., the meeting stood in recess.

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The meeting reconvened at 11:37 a.m. that same day, at which time Mr. Ernst advised that, in addition to statistical data, the 2013 survey offers useful insights for financial institutions,

policymakers, and other stakeholders who are working to improve access to financial services; and that the next session of the panel would explore the implications of observations from the 2013 survey and previous surveys that banking status is dynamic—with many households cycling in and out of the banking system—and that financial institutions could more clearly demonstrate the value and convenience they can provide to consumers. He introduced the panelists, noting that Susan Burhouse, Senior Consumer Researcher, DCP, would discuss how the survey findings on life events can be useful in identifying concrete steps to address some of the dynamics that cause households to leave or remain outside of the banking system and the implications for prepaid cards regarding these transitions; and that Yazmin Osaki, Senior Consumer Research Associate, DCP, would discuss the implications of the survey findings regarding mobile banking and other delivery channels.

Ms. Burhouse began by stating that interventions designed to help households maintain and renew their banking relationships through economic transitions, such as changes in employment and income, may reduce unbanked rates over time; that opportunities may exist to help households maintain bank accounts through adverse economic transitions through flexible product design, waiver of fees, or direct interventions that could include targeted outreach or financial education and counseling; and that opportunities may exist to bring new customers into the banking system by educating newly employed consumers about the benefits of bank accounts and personal financial management, or by encouraging employers to offer direct deposit and make their employees aware of the benefits offered by the banking system. Turning to the 2013 survey findings on the growing use of prepaid cards by unbanked households, she noted that prepaid cards usage by unbanked households has more than doubled since the 2009 survey; that most unbanked households are generally obtaining prepaid cards at locations other than banks to perform basic financial transaction services such as making purchases, paying bills, or receiving payments; that unbanked households that use prepaid cards are more likely than nonusers to have had a bank account in the past and are more likely to open a bank account in the future than other unbanked households; and that opportunities exist to meet these consumers' needs within the banking system by offering banking products such as a low-cost, safe transaction bank account that meets the recommendations of the FDIC's "Safe Accounts Template," which shares a lot of the features that attract consumers to the use of prepaid cards.

Proceeding to a brief discussion of the implications for mobile banking as a tool for expanding economic inclusion, Ms. Osaki stated that mobile banking has the potential to better engage underserved consumers by providing the convenience of banking services and account access at any time or place; that underbanked households are very well connected to mobile technology, with more than 90 percent of underbanked households having a mobile phone; and that underbanked households are more likely to have access to smart phones and to use mobile banking than fully banked households. She noted that the 2013 survey data highlights possible shortcomings in meeting underserved consumer needs; that many mobile banking functionalities such as text alerts rely on online banking access to initiate or manage such features; that underbanked households' ability to take advantage of some mobile banking functionalities could

be constrained by the fact that underbanked households are considerably less likely than fully banked households to have access to or use online banking; and that, in order for mobile banking to promote economic inclusion, it is important that mobile banking offerings be designed and implemented in ways that are accessible and beneficial to underserved consumers. She also noted the importance of other delivery channels such as branches to provide banking functions not commonly available through online or mobile banking, including access to financial advice or information about products and services; and that banks tellers and personal interactions are an important component in maintaining and building banking relationships with underserved consumers.

Mr. Ernst then opened the floor to Committee members for questions and discussion of the survey findings and implications. Member Annibale began the discussion by commending the staff on the 2013 survey data and new online access tool. He then asked if the staff had any observations in the survey report on cash usage to explain why 22.7 percent of households of foreign-born noncitizens are unbanked, but only 6.8 percent of those unbanked households use prepaid cards, indicating a potentially large segment of unbanked households that use cash and do not use prepaid cards or transaction AFS. In response, Ms. Chu indicated that past surveys have looked at cash users to determine whether they were unbanked households and used transaction AFS; that the 2013 survey considered data on the use of prepaid cards, finding that a small segment of unbanked households that did not use any transaction AFS appeared to be cash users but did use prepaid cards; and that there may be a sizeable segment of unbanked households that use cash, since they do not use prepaid cards, do not have bank accounts, and do not use transaction AFS.

Member Beck expressed his appreciation for the 2013 survey including data on life events, noting that the whole concept of tying financial behavior to events is very important in financial education, and that data on life events would be very valuable going forward. Observing that there may be a segment of the population that simply do not want to be engaged in the banking system, he asked if the survey data is beginning to offer any insights into what might be an acceptable level of economic inclusion. In response, Mr. Ernst indicated that the long-term trend is toward greater inclusion in the banking system; and that whether there should be a numerical level of economic inclusion is a great topic for conversation.

Member Boston commented that smaller financial institutions and minority financial institutions may not have the financial wherewithal to actually service their communities with mobile banking applications because there may not be mechanisms in place to allow those institutions to fully participate in mobile banking. He also commented on the "Bank On 2.0" initiative in advance of the afternoon panel discussion on this topic, noting that the program has been tremendously successful but may not be having an impact on minority communities in certain cities; and that alternative outreach efforts may need to be considered to include some communities.

In the continuing discussion, Member Cisneros, citing the high correlation between successfully managing a bank account and the availability of direct deposit, suggested that future surveys explore in greater depth the underlying reasons individuals were not using direct deposits to bank accounts to determine whether this was an account holder decision or a lack of accessibility due to the employer not offering direct deposits to their employees. He also expressed concerns regarding the transitions that households are making toward the increasing acceptance of mobile banking and prepaid cards, suggesting that it would be useful if future surveys could provide some insight into the reasons individuals transitioned into a safe account or prepaid card. Mr. Ernst agreed that these were very useful suggestions, noting that the survey currently does not ask whether the employer offered direct deposit, only whether the household received funds through direct deposit. Member Flake commented on the important role of bank tellers as a banking method, particularly in minority communities, noting that a meaningful relationship between a bank teller and their customer establishes a degree of confidence that helps keep the individual participating in the banking system situation because they know who they are dealing with; and that, if the degree of confidence is not high or available, the individual will look for another method to conduct their financial transactions.

Noting the ability to take data from the survey and transform it into actionable items that can be used both in the policy arena and by banks, Member Fuchs suggested that additional information on consumers' financial transaction behavior and perspective on bank offerings could be collected by directly asking households what would get them into the banking system. In response, Mr. Goodstein advised that revisions to the survey for 2015 are under consideration, and that it would be interesting to consider a direct question about what would get consumers into the banking system. Member Henderson recommended that it might be helpful for the Committee to preview the survey questions and offer insights that could help refine the survey questions or suggest other directions; that it is important for the survey to provide data on persons with disabilities, which can offer insights on these households; that Asian-Americans should be included as a discrete, discernible group because they are a fast-growing segment of the population; that additional information should be included on the financial transaction methods used by immigrant households, particularly those with undocumented immigrants; and that data should be included on what government programs require direct deposit and whether prepaid cards are acceptable for handling those kinds of payments. Member Levere commented that it is important to consider gender to the extent possible in the survey reporting, particularly regarding the use of financial services by women; that it is important to emphasize the implications of the significant amounts the underbanked and unbanked households spend annually on AFS in considering ways to improve access to mainstream financial services; and that helping households build savings is the key to managing economic transitions in a manner that helps them to stay in the banking system and reduces their use of AFS.

Member McCoy congratulated the staff on the 2013 survey and the website allowing online access to the data, commenting that the survey is of landmark importance. She questioned whether the underbanked or unbanked respondents are concerned with possible legal risk with

respect to their bank account, such as seizure of their funds by a debt collector, bank setoffs or freezes on their accounts, or phishing attacks and other cyber risks. She also questioned whether the underbanked and unbanked respondents understand the different levels of consumer financial protection that attend one product versus another, noting that many consumers believe that they have the same protections with debit cards as with credit cards. In response, Mr. Goodstein noted that one of the reasons unbanked households could select in response to why they did not have an account was “privacy,” which the staff believed would touch on some of the legal risk issues; and that the survey results indicate that one out of four unbanked households cited privacy as a reason for not having an account, with less than four percent citing it as the main reason.

Noting that the data compiled over the past three surveys has provided a great tool to begin working on some outcomes that focus on improving underbanked and unbanked households’ access to financial services, Member McDonald suggested surveying bankers as to why underbanked and unbanked households are not getting into the banking system despite financial institutions offering bank accounts without checks, service charges, or overdraft fees that can be used in the same context as prepaid cards. He emphasized that sustainability of the bank account was a key ingredient; that community banks must pay third-party vendors for all of these bells and whistles on accounts, resulting in higher costs for community banks than larger banks; and that the suggested survey of bankers should focus on how the bank regulatory compliance environment versus the nonbank regulatory environment of prepaid cards results in different revenue streams and costs in products, potentially constraining the ability of banks to profitably provide products to underbanked and unbanked households.

Member Murphy stated that the quality of the research in the survey report has progressed in both the Committee’s understanding of the unbanked and underbanked segment, as well as some of the challenges it presents. He noted that many underbanked households used bank tellers as their preferred method of banking; that financial institutions are handling more mobile banking transactions than teller transactions, prompting more financial institutions to move toward the universal banker concept that leverages both technology and a teller to provide account access; and that this trend suggests that the Committee should consider the implications of the changing delivery system against how households are choosing to access their accounts. Noting that he concurred with Member Murphy’s comments about the quality of the survey work, Member Weicher observed that it would be important to know more about the income, age, and ethnicity of the unbanked and underbanked households to determine if it was always households with the same characteristics, since some of those characteristics such as income and age are going to change over the next few years; and that it also would be useful to know the extent to which unbanked and underbanked households are part of the underground economy, which is primarily a cash economy with some impact on the use of and demand for currency in this country and elsewhere.

Member Eakes concluded the discussion by emphasizing the importance of digging into the survey data to understand why large percentages of minorities are unbanked or underbanked

households; and that the prospect of an executive order dealing with undocumented immigrants that would expand the deferred action program would offer an unprecedented opportunity within the next 12 months to figure out how to reach out to the 6 million undocumented immigrants in the financial services sector that have been unbanked and out of the banking system.

Chairman Gruenberg then announced that the meeting would recess for lunch. Accordingly, at 12:44 p.m., the meeting stood in recess.

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The meeting reconvened at 2:05 p.m. that same day, at which time Mark E. Pearce, Director, DCP, introduced the speakers for the final panel on the “Bank On 2.0” movement, José Cisneros, Treasurer, City and County of San Francisco (also a Committee member), and Jonathan Mintz, President and CEO, Cities for Financial Empowerment Fund (“CFE Fund”). Referring to the 2013 survey, Mr. Pearce observed that a significant number of U.S. households’ ability to stay within the traditional banking system is affected by life events such as losing or starting a job; and that the most frequently reported reason for opening a new bank account was to be able to receive direct deposits. Mr. Pearce noted that, since 2006, the Bank On programs across the country have successfully implemented strategies to promote the use of direct deposit among employers in the creation of low-cost checking and saving accounts with minimal fees and balance requirements; and that Member Cisneros and Mr. Mintz had pioneered the Bank On programs, as well as a variety of other innovative financial empowerment initiatives on municipal, state, and national levels.

Member Cisneros and Mr. Mintz then provided a brief overview of the Bank On and Bank On 2.0 programs, including a look at the history behind the programs, where the programs are today, and where the programs are going in the future. Member Cisneros highlighted the scope of the problem addressed by the Bank On programs, noting that millions of U.S. adults live outside the financial mainstream and spend billions on AFS; that the large scope of the problem indicated that there is a large scope of opportunity for improvement; and that city governments are particularly interested in the issue of financial empowerment because their residents’ financial instability increases their needs for public services and makes it harder for the residents to absorb the municipalities’ services. He provided a brief history of Bank On, noting that it was launched to connect residents with safer mainstream bank accounts and steer them away from predatory establishments; that Bank On was first launched in San Francisco; and that the Bank On model has spread to 100 programs and over 500,000 transaction accounts through the cooperative efforts and support of cities and numerous national nonprofit organizations, as well as the FDIC and other federal regulators. He described the status of Bank On programs today and the results of a nationwide program leadership survey, noting that about three-quarters of the respondents were at least satisfied with how their Bank On programs were working, with about one-quarter indicating they were dissatisfied; that more than one-half of Bank On programs were locally oriented, serving a county or small regional area; that more than one-half of the Bank On

programs operate on a budget of less than \$10,000 per year, with their funding most often coming from financial institutions; that about one-half of participating financial institutions provide data back to the Bank On leadership; and that a small percentage of Bank On programs require that no overdrafts be allowed.

Member Cisneros continued with a discussion of the challenges that had been identified by Bank On programs and their partners, noting that one challenge was the wide variation among Bank On programs and products, with some being very structured with strong leadership and others with a more casual structure providing some outreach and education without being definitive regarding the accounts to which they are referring participants; that a second challenge is obtaining consistent and reliable data about the programs; that a third challenge was that ongoing policy and regulatory issues pose obstacles to opening accounts for people on a broader scale, including the “Know Your Customer” requirements, Community Reinvestment Act (“CRA”) credit for Bank On activities, and consumer reporting agencies’ reporting activities; and that another challenge was the patchwork of approaches that slows the expansion process because each city must negotiate with their local bankers even where the local banks have participated in similar programs elsewhere in the country. Turning to the topic of where the Bank On programs could go in the future, Member Cisneros noted that Bank On programs had made great progress with little structure or financial support, indicating that the movement had vast opportunity to expand and make a positive difference for the unbanked. He then described a number of steps that would improve Bank On’s success, including: the identification and implementation of best practices concerning program standards and how they are integrated into ongoing city activities; increasing the number of safe and affordable products offered by traditional financial institutions; and working with regulators and the private sector, including consumer reporting agencies, to address various regulatory and policy barriers to helping people earn their way back into a good credit standing. Member Cisneros concluded by emphasizing that designing a national infrastructure around the Bank On program could make these opportunities a reality by engaging national banks and more cities across the country.

Next, Mr. Mintz briefly discussed the research, pilot programs, and other development work that is underway as part of the Bank On 2.0 initiative, noting that the CFE Fund had worked hard to consider what role a national platform could play in building on and supporting what the more local Bank On programs had learned, while keeping in mind that every Bank On program is both voluntary and local. He noted that one of the first major pilot programs in Bank On 2.0 explored how city governments could effectively leverage the occasions when they are already touching the unbanked and underbanked target populations with money; that this pilot program, “Summer Jobs Connect,” was introduced in five cities to explore ways in which summer youth employment programs and their payment streams could help educate young adults about navigating the banking system in a much more effective way by discussing the literal experience of a pay check and a bank account as opposed to theoretical concepts; and that a model of the Summer Jobs Connect program that could be used in other cities was being developed to further leverage summer youth employment programs into banking access

opportunities. He also noted that the CFE Fund had commissioned a study by the National Consumer Law Center about consumer reporting agencies and account screening and was working with the CFPB to respond to the issues raised in the study; that the best banking access programs and most willing bank partners could be blocked if applicants are rejected from opening accounts because of inaccurate reporting by consumer reporting agencies; and that a goal of Bank On 2.0 and its participants could be to develop a voluntary industry consensus and best practices for how consumer reporting agency reports are used for risk identification and reduction, as well as fraud avoidance. Mr. Mintz briefly discussed other upcoming pilot programs, including programs to explore rural engagement policies and technological solutions to issues identified by the Bank On program.

Mr. Mintz continued, reporting that the Bank On 2.0 national advisory board would meet soon to address issues such as how national standards can support the local Bank On programs, which tend to vary greatly; and that the advisory board would evaluate and provide key recommendations on appropriate financial product guidelines, service delivery best practices, program practices and services, and guidance for a national Bank On platform to provide program support. He also described the agenda of an upcoming Bank On 2.0 conference that would address finding and structuring the right financial products and services, connecting those financial products and services to the target populations, and building strong coalitions to support the Bank On program's goals. Mr. Mintz then discussed what a national Bank On platform could accomplish in the future, noting that a national platform could help achieve scaled solutions and assist in engaging federal regulators to address issues identified locally; and that ongoing national technical assistance and leadership could assist the Bank On program on important issues, such as whether there should be actual certifications of financial products in addition to developing national standards. Member Cisneros noted that there are several issues mentioned earlier in the presentation on which Bank On leadership could helpfully engage with federal regulators, including the obstacles imposed by "Know Your Customer" requirements when opening accounts, collection of data on accounts being opened as part of Bank On programs, CRA credit for Bank On activities, and consumer reporting agencies' reporting activities. Member Cisneros concluded the presentation by emphasizing that the Bank On program had achieved a significant amount of enthusiasm and engagement despite its patchwork landscape, and that support for Bank On 2.0's national focus could yield good results. Mr. Mintz added that the interest in and support for addressing the issues of the unbanked and underbanked already demonstrated by federal regulators were integral to the success of the Bank On programs.

Mr. Pearce then opened the floor to Committee members for questions and discussion of the Bank On program. Member Weicher opened the discussion by asking about participants that were dissatisfied with the Bank On program. In response, Mr. Mintz stated that there were several common themes among the dissatisfied participants, including: that they were not able to articulate how they were successful or document that local partners were actually providing appropriate products; and that a number of city Bank On programs wanted more national leadership and a national model to avoid the need to reeducate the local relationship with

national banks each time there was a change in the local leadership. Member Weicher also asked how a Bank On program could operate on \$10,000 per year, in response to which Member Cisneros advised that the city's role is often as a convener and voice in a different way to recommend that residents consider keeping their money safe by opening a bank account with a participating institution; and that, while such communications do not cost a lot of money, resources also were needed to keep partners engaged in Bank On, especially non-profits that do not have a lot of resources themselves. Mr. Mintz acknowledged that \$10,000 does not buy much of an outreach campaign in many cities, noting that one value of municipal leadership is their ability to harness a variety of systems where the infrastructure has already been developed and staff already exist, such as summer youth employment or prison reentry programs.

Member Swagel commented that the Bank On programs were important and faced the challenge of ensuring that there is a supply of safe accounts and a consumer demand for them. He applauded the Citibank Access Account approach of encouraging use of their accounts through rewards to the account holders, suggesting that education about access to the financial system should be an integral social goal. Member Swagel also suggested partnering with organizations that are already in the places that the unbanked probably could be found, such as locations where Affordable Care Act services are offered; and that it might be useful to stress test safe accounts to confirm that they are actually safe for both the financial institution and the account holders. In response, Member Cisneros agreed that tracking the success of a variety of different accounts and account holders would be useful, and that the educational goal had always been part of the Bank On programs. Mr. Mintz also responded, noting that municipal programs such as Summer Jobs Connect were helpful because they provided a different way to connect people to accounts by connecting their pay to direct deposits into accounts; and that municipal programs could help capture useful data because they made it easier for banking partners to know who opened an account, how they are using the account, and how long they remain in the account. Member Swagel suggested that it would be useful to have a compilation of all the different approaches that different Bank On programs had taken, along with a discussion of why they did or did not work.

Member McDonald stated that the Bank On program was a strong one that was accepted in many communities. Noting that the Committee had discussed the issue of CRA credits for several years, he asked what kind of obstacles the Bank On program found in getting CRA credits. In response, Mr. Mintz advised that the Cities for Financial Empowerment Coalition believed that financial institutions that provide safe accounts should specifically be given credit in the CRA service test as a helpful incentive and a reward, and that providing CRA credit would also facilitate the gathering of more data for safe account programs. Noting that his bank had developed and sold a safe account product and subsequently pointed to those products when it responded to governmental requests for proposals, Member McDonald suggested that communities could encourage more safe accounts by including references to them when they publish requests for proposals for banking relationships. Noting that his bank participated in the Bank On program in various cities and would view a national Bank On platform as a helpful way

to align the program within the bank's structure, Member Murphy suggested that additional communications about Bank On program success stories would help persuade partners that Bank On was worth the investment.

Member McCoy noted that she previously lived in a city that used its decision about where to bank to affect other policy goals and asked if the Bank On program had considered that as a strategy. Member Cisneros responded by advising that this was currently not the norm, but that a number of cities were considering the issue; and that San Francisco had included a socially responsible set of questions in a commercial banking services request for proposal and evaluated the answers as part of its scoring of responses. Mr. Mintz agreed that cities' power of the purse was an important leverage point for achieving strategic goals, noting that a national platform could provide a template for procurement strategies. In response to Member McCoy asking why any large employer would not use mandatory direct deposit for their employees, Member Cisneros stated that a San Francisco survey of employers indicated that most major companies used direct deposit, but fewer smaller employers did because it could be viewed as a burden to arrange; and that San Francisco encouraged payroll companies to make their offerings more simplified so that even the smallest of employers could utilize direct deposit.

Continuing the discussion, Member Eakes asked what would be required for the Bank On to scale up tenfold. In response, Member Cisneros indicated that some elements would be a standard model that is well understood, together with an established marketing model that included agreements from all the participating national banks. Mr. Mintz added that effective municipal integration also would help scale up Bank On programs; that a program such as summer youth employment could add hundreds of thousands of people as participants; that cities were changing how they structure various programs and payment streams to require financial counseling as part of work force development; and that harnessing municipal work force development programs would help Bank On programs to scale up quickly, which would have the added advantage of making the accounts more profitable to the financial institutions offering the accounts. Member Cisneros also noted that offering a monetary reward to participants could help scale up the Bank On program quickly. Member Eakes then asked if it was possible for a city or county to require that all the individuals it pays to have direct deposit into a safe account, noting that, in Chicago, about 30 percent of home healthcare workers were denied checkless accounts because of Chexsystem negative reports. In response, Mr. Mintz stated that the answer to that question was complicated since any such requirements were subject to state requirements; that Bank On's success was due in part to the voluntary nature of its relationships; and that cities can use their procurement powers to influence what is available by, for example, advertising that it is looking for banking partners that will provide a product with characteristics "A and B, but not C," and who would work with the city on account opening in specified ways. Member Eakes recommended that the Bank On program publicize that no overdrafts are allowed in Bank On accounts, noting that the large wave of immigration in the next year would be a valuable opportunity for inclusion by the Bank On program; and that banks would be better able to make loans to immigrants if they had an account to draw from for repayment. Member Cisneros

responded by noting that the inclusion of immigrants was a foremost issue for the San Francisco Bank On program; and that the San Francisco Bank On did outreach at the Mexican consulate waiting rooms and community groups, requiring all of its financial institution partners to commit to accept any form of identification allowed by federal agency guidelines. Member Eakes then asked if a national platform existed for account origination that would gather data centrally for subsequent use by smaller institutions. Member Cisneros responded by stating that it did not appear one currently existed, but the Bank On 2.0 program was very interested in such a mechanism.

Member Beck emphasized the importance of toolkits in achieving goals, noting that the availability of templates for how to accomplish tasks not only streamlines meetings with partners, but also significantly increases the chances of a successful outcome. Member Annibale stated that his organization had been active in the Bank On program, advising that it is important to get sufficient funding to the organizations that are performing the outreach work with the municipalities because the outreach element suffers in the absence of funding for those organizations. Member Annibale also spoke about the importance of standardization in data collection, emphasizing that, without standards concerning what should be reported, any data collected would be relatively useless; that financial institutions might report all of their new accounts were the result of the Bank On program rather than providing more useful segmented reports; that providing CRA credit for Bank On type programs would be an effective way to make the data collections more precise and reliable. He noted that providing CRA credit would mean that regulators would define what actions get credit and establish processes for testing data integrity and reporting, including auditing. Mr. Pearce added that the public comment period for the interagency CRA questions and answers was still open and that comments to that effect would likely be received.

Chairman Gruenberg then observed that the three sessions at today's meeting—the morning session on safe accounts and small dollar loan products, the presentation on the results of the 2013 survey, and the afternoon's session on the Bank On program—are very much connected and interrelated, fitting into an overall effort on which the Committee was making some progress. Chairman Gruenberg noted that, as suggested, it may be appropriate to have an agenda setting discussion at a future Committee meeting; that there was a lot of dynamism and new ideas generated by today's sessions; and that, although the Committee has existed for a while, it was not losing steam. Members Eakes and McDonald agreed that the Committee had made good progress toward its goals of helping the unbanked and underbanked participate in the

mainstream banking system. Chairman Gruenberg concluded by thanking the attendees for their participation.

There being no further business, the meeting was adjourned at 3:20 p.m.



Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
And Committee Management Officer
FDIC Advisory Committee on Economic Inclusion

Minutes

of

The Meeting of the FDIC Advisory Committee on Economic Inclusion

of the

Federal Deposit Insurance Corporation

Held in the Board Room

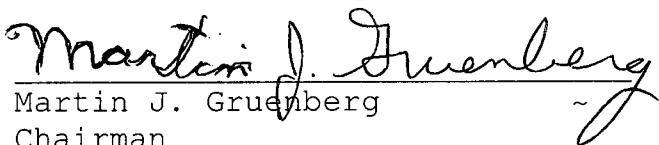
Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

October 29, 2014 - 9:09 A.M.

I hereby certify that, to the best of my knowledge, the attached minutes are accurate and complete.



Martin J. Gruenberg

Chairman

Board of Directors

Federal Deposit Insurance Corporation