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

April 1, 2010 - 8:40 A.M.

The meeting of the FDIC Advisory Committee on Economic Inclusion ("ComE-IN" or "Committee") was called to order by ComE-IN Chairman Diana L. Taylor.

The members of ComE-IN present at the meeting were: Diana L. Taylor, ComE-IN Chairman and Managing Director, Wolfensohn & Company, L.L.C., New York, New York; Michael S. Barr, Assistant Secretary for Financial Institutions, Department of the Treasury; Ted Beck, President and Chief Executive Officer, National Endowment for Financial Education; Kelvin Boston, Executive Producer and Host of PBS' *Moneywise with Kelvin Boston;* Martin Eakes, Chief Executive Officer, Self-Help/Center for Responsible Lending, Durham, North Carolina; Lawrence K. Fish, Former Chairman and CEO, Citizens Financial Group, Inc.; Ronald Grzywinski, Chairman, ShoreBank Corporation of Chicago; Alden J. McDonald, Jr., President and Chief Executive Officer, Liberty Bank and Trust, New Orleans, Louisiana; Bruce D. Murphy, Executive Vice President and President, Community Development Banking, KeyBank National Association; 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; J. Michael Shepherd, President and CEO, Bank of the West and BancWest Corporation; Robert K. Steel, Chairman of the Board of Trustees, The Aspen Institute; and Peter Tufano, Sylvan C. Coleman Professor of Financial Management, Harvard Business School, and Senior Associate Dean for Planning and University Affairs. Committee members Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen AME 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; Elizabeth Warren, Leo Gottlieb Professor of Law, Harvard Law School; and Deborah C. Wright, Chairman and Chief Executive Officer, Carver Bancorp Inc., New York, New York, were absent from the meeting.

Members of the Federal Deposit Insurance Corporation's ("Corporation" or "FDIC") Board of Directors present at the meeting were Sheila C. Bair, Chairman, Martin J. Gruenberg, Vice Chairman, and Thomas J. Curry, Director (Appointive). Ruth R. Amberg, Acting Designated Federal Officer for the Committee and Senior Counsel, Consumer/Compliance Section, Consumer and Legislation Branch, Legal Division, also was present at the meeting. Corporation staff who attended the meeting included Heather L. Basnett, Michael W. Briggs, Laura L. Brix, Luke H. Brown, Sarah C. Butler, David Chapman, Glenn E. Cobb, Christine Davis, Patricia B. Devoti, Robert E. Feldman, Ralph E. Frable, Tiffany K. Froman, Janet R. Gordon, Leneta G. Gregorie, Tray Halverson, Sally Kearney, Ellen W. Lazar, Alan W. Levy, Cassandra McConnell, Rae-Ann Miller, Skip Miller, Barry A. Mills, Tariq A. Mirza, Robert Moss, Christopher J. Newbury, Janet V. Norcom, Yazmin E. Osaki, Luke W. Reynolds, Lisa K. Roy, Barbara A. Ryan, Kimberly Stock, Katherine Samolyk, and Eloy A. Villafranca. William A. Rowe, III, from the Office of the Comptroller of the Currency also attended.

Committee Chairman Taylor opened and presided at the meeting. She began by welcoming ComE-IN members; summarizing the highlights of the FDIC's *National Survey of Unbanked and Underbanked Households ("Household Survey")*, the results of which were presented to Committee members at the meeting held on December 2, 2009; and providing an overview of the meeting agenda. Next, Chairman Bair thanked Vice Chairman Gruenberg for his stewardship of the Strategic Planning Subcommittee as well as Mr. Barr and Professor Tufano, chairs of the Transactional Accounts and Savings Work Groups, respectively, for their roles in the Subcommittee discussions held on March 31, 2010. She then provided an update on the FDIC's Small Dollar Loan Pilot, noting that the pilot had recently ended; that a total of 35,500 loans, totaling $40.2 million, were made; that the rate of loan charge-offs were in line with those for loans to the general population, contrary to the commonly-held perception that small-dollar loans are more costly and higher risk products; and that the pilot resulted in a simple, feasible template for small-dollar loans that the FDIC would be promoting to the academic community, bankers, and consumer groups. Enumerating the features of the small-dollar loan template, Chairman Bair indicated that they included amounts of $2,500 or less; terms of 90 days or more; interest rates of 36 percent or less; streamlined underwriting, requiring only proof of identity, an address, and a credit report, with a loan decision made within 24 hours; and optional features of mandatory savings and financial education. She further indicated that the small-dollar loan template ties into larger efforts to ensure that banks monitor customer use of overdraft protection to make certain that the service is being used for inadvertent overdrafts, rather than as a credit product.

Next, Professor Tufano, after thanking Committee Members Barr, Beck, Boston, and Murphy for their participation in the March 31, 2010, meeting of the Subcommittee, presented an overview of the meeting discussion on savings products for low- and moderate-income ("LMI") consumers. He advised that the purpose of the session on savings was to identify the facts regarding emergency savings, including the importance of such savings and the ability of LMI households to establish emergency savings; strategies to encourage emergency savings for LMI households and to encourage banks to create emergency savings programs; and the underlying principles for and features of LMI emergency savings products.

As to the amount needed for an emergency savings account, Professor Tufano noted that estimates vary widely, with the America Saves Campaign, a program of the Consumer Federation of America, recommending $500-$1,000; financial planners recommending three to six months of expenses; responses to the Board of Governors of the Federal Reserve System's 1995 and 1998 Survey of Consumer Finances ("SCF") recommending 8 percent of net worth; and responses to the 2007 SCF recommending $2,000. He then reported that according to the results of a recently conducted study on *Households @ Risk: US Households' Capacity to Cope with Risk*, approximately one-half of all Americans indicated that they could not or they probably could not come up with $2,000, if needed, within 30 days, with those having the least amount of wealth, education, and income disproportionately and significantly less able to cope with an unexpected expense, and 30 percent of Americans indicating they are likely to face an unexpected expense with which they will be unable to cope. He further reported that, when those with some capacity to cope with an unexpected expense were asked to identify their top mechanisms for doing so, the most frequently cited mechanisms after savings were borrowing from family, more work, and credit cards, with obtaining a bank loan falling further down the list. He also described potential long-term effects of inadequate emergency savings, noting that those who indicated a likely inability to cope with an unexpected expense were also six percent less likely to indicate they would get married, 10 percent less likely to indicate they would have children, and 11 percent less likely to indicate they would retire. With respect to lessons learned, he stated that the data indicate that households are substantially at risk; savings is the first, but not the only, line of defense; and the ability to cope with unexpected expenses may have a material impact on life decisions.

Professor Tufano then advised that the Subcommittee, after identifying family circumstances and choices, private sector disinterest in small dollar emergency savings, and policy disinterest in emergency savings as some of the possible reasons that households are substantially at risk, heard presentations from representatives of large and small financial institutions, regulatory agencies, consultants, government program managers, academics, and non-profit collaborative partners regarding their experiences and lessons learned with respect to LMI consumers in an effort to determine the best approaches to making progress toward development of savings programs to meet the needs of such consumers. He advised that, as a result, the Subcommittee had identified a three-pronged approach involving the consumer, financial institutions, and policy.

With respect to the consumer, Professor Tufano indicated that discussion participants had discussed the importance of meeting the customers where they are as opposed to where one would like them to be, whether it be where they are physically, such as in the workplace or at tax preparation sites, or where they are virtually, such as connected to their cell phones; and understanding what they say, feel, do and do not do, how they respond, their differences, and their needs, interests and preferences. He also stressed the importance of engaging LMI customers through the use of a variety of incentives, including financial incentives such as Bancorp South's individual development account ("IDA") program and the $aveNYC programs, both of which offer fund matching to induce savings; fun incentives such as Save to Win, a savings vehicle offered in Michigan by the National Credit Union Foundation's REAL Solutions program using the principles of prize-based savings; community incentives such as the Bank On and America Saves programs which, through partnerships between public and private organizations, promote savings on a community or nationwide basis; and local incentives and support from friends and family such as SmartyPig, the on-line platform that allows consumers to save for specific financial goals.

With respect to financial institutions, Professor Tufano indicated that the previous day's discussion had focused on the importance of making savings programs sustainable, with emphasis on not just the product, but on how consumers use the product;

more effective customer acquisition that might support LMI savings; development of products that are more efficient and efficient in the way they are used, or what he termed "product-in-use"; and development of new revenue streams. He reported on several means of acquiring customers effectively, including leveraging community and regulatory partners to assist in marketing savings programs; better targeting of customers and segmentation of markets; forming coalitions with retail partners to sell bank savings products and open accounts off-site; and developing a marketing mix wherein customers are offered the right product, at the right time, in the right place. Regarding more efficient products, Professor Tufano advised that some financial institutions reported changing product features to retain only those features that customers want and use, using technology in multiple ways to deliver products or for risk management purposes, and trying to alter consumer behavior in a way that lowers production costs, whether by encouraging direct deposit, use of ATMs, or on-line delivery of account statements. He then briefly touched upon revenue streams, noting that the old revenue streams were net interest margin and fees, with new revenue streams including interchange fees and breakage.

Moving to the issue of policy, Professor Tufano next discussed the various roles that could be played by regulators and lawmakers in promoting savings products for LMI consumers. He advised that regulators could be standard setters, giving as an example the Massachusetts Community and Banking Council, which adopted a set of product attributes to which banks, in conjunction with community groups, voluntarily agreed to adhere. He further advised that regulators could provide forums for the sharing of best practices, giving as an example the previous day's meeting of the Subcommittee; provide incentives for savings activities under the Community Reinvestment Act ("CRA"); review regulations to ensure that compliance costs are consistent with the goal of providing low-cost products for LMI families; eliminate disincentives to save, citing the asset tests for certain assistance programs; and provide financial institutions with guidance on the creation of emergency savings vehicles.

Then, Professor Tufano reported that the Subcommittee had identified as a set of underlying principles for emergency savings products the need for simple, easy to understand terms; a true emergency framework that encourages deposits, is appropriately liquid, does not penalize account holders who withdraw funds for an emergency, and encourages replenishment of funds; universality, with low minimum balances and ease of eligibility; low cost and high value; and sustainability. He then provided an overview of a sample template, developed by FDIC staff, for safe, low-cost emergency savings accounts with features based on those principles. He stated that in determining accountholder eligibility, institutions should be as flexible as possible in verifying customer identity and assessing risk and that accounts should have no or low minimum balance requirements, no monthly maintenance fees, allow withdrawals with no more than a week's notice, allow no-fee deposits, and offer interest at competitive rates.

Next, Mr. Barr summarized the Subcommittee proceedings regarding safe transaction accounts for LMI consumers, noting that the conversation started with an identification of the transaction needs of such consumers, such as receiving income, paying bills, storing and saving funds, and making money transfers, as well as the various methods for meeting those needs, such as receiving income through direct deposit or loading funds on a card and paying bills by purchasing money orders or writing checks. He then detailed some of the benefits to consumers and financial institutions of having access to mainstream financial markets, with benefits to consumers including building assets and creating wealth, receiving protection from theft of benefit checks, and having access to the protection of Federal laws, such as those applicable to deposit insurance and electronic funds transfers; and the benefits to financial institutions including access to a broader range of markets, improved market share, and enhanced reputations in the communities where they do business.

Mr. Barr touched on strategies for improving the ability of banks to reach LMI consumers with products geared to their needs, indicating that one such strategy is through public-private collaborations and providing as examples pilot programs launched by the U.S. Department of the Treasury in a number of communities, the FDIC's Alliance for Economic Inclusion ("AEI") program, and programs promoted by the National League of Cities. He then expounded on the potential features and services to consider in designing transaction accounts, including low cost, transparency of costs and fees, and safety; the potential use of transaction products as "second chance" accounts for certain consumers; and expansion of the LMI customer base through acceptance of alternative forms of identification, such as matricula consular cards; and discussed ways to improve safety, reduce fees, and improve simplicity, including disallowing overdrafts on check and debit cards, linking savings accounts to checking accounts to provide a mechanism to build an emergency savings cushion, and encouraging direct deposit and on-line bill payment. He also addressed the need to develop a set of activities around transaction products, such as marketing and outreach, personal financial management training, and financial education; and ways to encourage bank participation, including collaborations with trusted community groups.

Mr. Barr then provided an overview of a number of changes within the financial services industry that could have an impact on safe transaction products for LMI consumers and a summary of some of the savings and transaction products specifically targeting those consumers. He noted the gradual shift toward electronic payments, card-based technology, such as pre-paid and payroll cards, and mobile payments, which could be built upon to provide greater financial services utility and a greater range of flexibility to LMI households. Regarding products specifically targeting LMI consumers, he described the basic features of the SafeStart Account, a savings pilot program offered by New York City through its Office of Financial Empowerment; and transaction-based products and services developed by REAL Solutions and offered through various credit unions, including the Denver Community Credit Union and CoVantage Credit Union.

Concluding his remarks, Mr. Barr noted that there have been many initiatives over the past decade through which lessons have been learned about how to better serve the financial needs of LMI households; that work still needs to be done to bring together financial institutions, government, and consumers to provide safe and transparent banking products; and that, in thinking about what transaction products would look like, the Subcommittee had developed a sample template of the basic features of safe and transparent transaction accounts. He listed among those features low minimum deposit and monthly balance requirements, no or low monthly maintenance or service fees of no more than $9.95, no-fee withdrawal of funds for a specified number of checks written on the account or an unlimited number of electronic withdrawals, no fee electronic access, direct deposit capability, no overdraft or non-sufficient funds fees, an option for automatic fund transfers into a savings account or bucket to encourage emergency cushions, and low-cost built-in ancillary services such as money orders, on-line bill payment, wire transfers, and remittances.

Vice Chairman Gruenberg asked whether in developing a strategic plan, the Subcommittee was, as a general proposition, moving toward a card-based strategy, in response to which Mr. Barr indicated that it did appear, based on everything learned at the previous day's meeting, that some type of card-based system appeared useful to meeting the needs of the LMI demographic. In the discussion that followed, Board and Committee members touched on a number of different topics, including how to address the security risk posed by lost or misplaced cards, the extent to which financial literacy and education should be incorporated into card-based savings and transaction accounts for LMI individuals, and the need to focus not only on product features, but also on how to deliver the products and service. On the issue of security risk, Messrs. McDonald, Grzywinski, and Fish expressed concern about the cost and risk to consumers of lost or misplaced cards. In answer, Mr. Barr advised, and Chairman Bair agreed, that what was envisioned was a transaction account, with debit card access and the consumer protections that typically accompany such accounts. Regarding financial literacy and education, both Mr. Steel and Mr. Boston were of the opinion that simply making card-based accounts more accessible to LMI consumers would be akin to treating the symptoms rather than addressing the root cause and that it would be critical to incorporate financial education into the core mission to ensure that consumers understand how the cards work. With respect to how to deliver products and services, having identified their basic features, Mr. Grzywinski expressed his opinion that, as an advisory group, part of the focus of the Committee should be on recommendations for incentives that could be offered by the FDIC, whether through existing regulatory authority or through legislative change, and suggested that perhaps the FDIC could provide top-rated banks that offer the types of products envisioned by the templates with higher deposit insurance limits or reduced insurance premiums; use CRA credit to provide market incentives; use the CRA examination process to assess the status of economic inclusion programs and perhaps as a mechanism for providing short presentations to bank directors on programs targeted at meeting the financial needs of LMI consumers; and sponsor management seminars to share best practices. Director Curry, pointing to the success of the Basic Banking for Massachusetts Program that was launched in 1994, agreed that active endorsement and participation by regulators is an effective means of addressing the issue of how to advance safe and affordable savings and transaction accounts for the LMI demographic.

Chairman Bair expressed interest in having the Subcommittee provide more clarification on how consumers would pay bills using a card-based system and on the fee structure because with the template allowing for a low maintenance fee, but an even lower minimum balance requirement for transaction accounts, it would be very easy for an account to quickly move into negative territory. She suggested, in addition, that a next step may be to post the savings and transaction accounts templates on the FDIC's website to get feedback from financial institutions, consumers, consumer advocacy groups, and community organizations. Vice Chairman Gruenberg, citing the card product offered by CoVantage Credit Union with a monthly fee of only $2 and a $10 charge to replace lost cards, suggested that many of the features seem to address some of the concerns raised during the discussion and would be worth reviewing.

Committee Chairman Taylor then announced that the meeting would briefly recess. Accordingly, at 10:46 a.m., the meeting stood in recess.

* * * * * * *

The meeting reconvened at 11:06 a.m. that same day, at which time Committee Chairman Taylor turned the meeting over to Ellen W. Lazar, Senior Advisor to the Chairman for Consumer Policy who, acting as moderator for the discussion on "Strategies for Offering Safe Financial Products Targeted to Underserved LMI Consumers in a Competitive Market," introduced panelists Robert S. Kaplan, Baker Foundation Professor, Harvard Business School, Boston, Massachusetts; Dorothy Bridges, Chief Executive Officer, City First Bank, Washington, DC; Alan Branson, Chief Operating Officer, Enterprise Corporation of the Delta/Hope Community Credit Union, Jackson, Mississippi; and William Myers, Senior Fellow, Aspen Institute, Economic Opportunities Program, Washington, DC.

Mr. Kaplan began the panel presentations by providing Committee members with an overview of how to measure profitability in the LMI customer segment of the population. He advised that, in determining the profitability of products and services, it is important to know what it costs the institution; that costs can be traced down to the transaction level; that costs are driven more by customer behavior than by product characteristics; that computers make it surprisingly simple to calculate costs at the transaction level; and that once cost drivers become transparent, it is fairly easy to identify opportunities to lower the transaction cost of serving a particular consumer without abandoning high cost products or customers, thereby encouraging innovation. After providing a brief rundown of the various cost accounting formulas involved in calculating product and customer profitability and the cost of each customer's transaction, he ended his remarks by noting that, once an institution understands customer needs and preferences and product and customer costs, the LMI market can be made profitable through a number of mechanisms, including reducing the resources required to perform banking activities, improving product and channel designs, changing or managing customer behavior, and expanding customers' use of banking products and services to achieve overall customer profitability.

Next, Ms. Bridges, after noting that the business model of City First Bank is driven by its mission to serve the LMI community, discussed some of the strategies utilized by the bank. She advised that the bank is located within a community that is predominantly immigrant and Hispanic and that, to best serve that constituency and ensure that customers feel welcome, the entire staff is Spanish-speaking; that the bank studied the behaviors of that community and, based on traffic patterns, rethought how to deliver products and services more efficiently; and that the bank accepted other than state-issued forms of identification, such as matricula consular cards, going so far as to house bank employees at the local Mexican consulate office every other Saturday so that those coming into the consulate to obtain cards could talk to a bank representative about the bank's offerings. As for account products and features, she advised that the bank, realizing that the Automated Clearinghouse wire transfer service is relatively expensive, signed up for a Federal Reserve Bank pilot, Directo Mexico, which allowed it to provide the service more inexpensively; that the bank's accounts were completely electronic with the bank, after verifying identification, issuing its own identification cards with bar-coded matricula, ITIN, and account numbers, which reduced the wait time for customers to conduct in-bank transactions; and that the bank's accounts were no-cost, debit-based, and had no check-writing capacity, except in very limited circumstances. In conclusion, Ms. Bridges indicated that developing products and services for the bank's customer base was something of a learning process in terms of studying their behavior, talking to individuals in the community, and identifying their preferences.

Mr. Branson then spoke to the Committee about the experiences of Hope Community Credit Union, advising that its mission is to improve lives, build assets, and strengthen communities; that 80 percent of members are minority, one-third of members never had a bank account before joining the credit union, that the average household income for mortgage accountholders is $36,000; and that the default rate on its mortgage portfolio is below one-half of one percent. He stated that the credit union had found the following to be effective strategies for expanding its membership within the LMI community: working with community groups, schools, nonprofits, churches, and employers; offering a range of products, from a debit card-based transaction account to more traditional accounts, including accounts with the capacity to receive electronic disaster assistance payments or insurance proceeds; and word-of-mouth regarding its ability to qualify anyone who is legally eligible for some type of account. Elaborating on the partnership approach, he indicated that the credit union has actually trained staff of various organizations on the institution's products; that often these organizations understand better than the credit union how the institution's products relate to their clients;

that community partners have provided the credit union with valuable feedback on ways in which its products might better serve the target population; and that customers' relationships with the credit union's partners often serve to exert a certain degree of peer pressure with respect to how they relate to the credit union. Mr. Branson ended his remarks with the observation that efforts to address the challenges of providing financial services to low-income households in rural areas could, perhaps, be informed by lessons learned with regard to ensuring public access to other services, such as electricity and phone service.

Concluding the panel presentations, Mr. Myers discussed the importance of the product-to-program interface in providing mainstream financial services to LMI individuals, explaining that the interface revolves around four axes: choosing the appropriate business model, account acquisition, developing a niche product, and product migration. After listing several possible business models, including the margin approach, relationship pricing, and scored pricing, he indicated that his favorite model is life cycle pricing, which instead of thinking that every product and every customer has to produce a profit every day, thinks more along the lines of creating long-term relationships with a view for overall profitability. With respect to account acquisition, he advised that there are many ways to attract accounts, with some of the more successful ways being to build partnerships with nonprofit organizations and to offer products which mimic the products and services, such as payday loans and check cashing, the customers actually use. Finally, regarding product migration, he stated that, after acquiring customers, it is important to design a continuous pathway of products, such as prepaid cards, checking accounts, and credit cards, to which customers can appropriately migrate, and a marketing scheme to facilitate the migration, with the ultimate goals being to have multiple contacts with each customer, create potential profit centers and, create a win-win situation.

During the ensuing discussion, Committee members shared some of their takeaways from the presentations and asked a number of questions on some of the more technical aspects of Mr. Kaplan's cost accounting formulas, including their usefulness in forecasting resource demand, managing losses, determining economy of scale, and determining when to add capacity. Mr. Branson asked whether the cost-accounting formulas could be used to develop a model of the costs of particular products or transactions at one institution so that smaller institutions, lacking the expertise to conduct the analyses, could have the benefit of the cost data for their own products and services. In response, Mr. Kaplan indicated that it is possible to develop a template that could be replicated without each institution having to complete the entire study, that it should be quite helpful in helping small institutions understand the underlying economies of what drives their costs, and ultimately enable them to be profitable. Mr. Ryan suggested that one role for the FDIC would be to act as a clearinghouse, pulling together information such as that provided in Mr. Kaplan's presentation and other research geared toward economic inclusion. Mr. Shepherd made a similar recommendation and, noting that it would be another way to incent financial institutions to provide products and services to LMI consumers, asked whether there is any data on the long-term value of such customers and the probability that they will graduate to more profitable contacts with an institution. In answer, Mr. Kaplan indicated that he believed there are some banks compiling such data, although he could not say which ones; Mr. Meyers indicated that the Center for Financial Services Innovation had conducted related research with respect to the VITA product and found the retention rate was only about 10 percent after two years; and Ms. Lazar indicated that she was not aware of the FDIC having any such data and that it could be an interesting area for research. Professor Tufano then observed that the discussion had brought focus to the need to manage customer relationships and suggested that the sample savings and transaction templates should be developed in such a way as to encourage retention.

Committee Chairman Taylor then announced that the meeting would recess for lunch. Accordingly, at 12:19 p.m., the meeting stood in recess.

* * * * * * *

The meeting reconvened at 1:33 p.m. that same day, whereupon Ms. Lazar briefly summarized the morning session, then introduced Cassandra McConnell, Associate Director, Community Affairs Branch, Consumer Protection and Consumer Affairs, Division of Supervision and Consumer Protection ("DSC"), and Eloy A. Villafranca, Community Affairs Officer, Dallas Region, DSC, who spoke about public/private partnerships for economic inclusion.

Ms. McConnell, noting that the FDIC Community Affairs Offices have a broad range of experience in developing and fostering partnerships, particularly through their work with the regional AEI initiatives, advised that such strategic partnerships are critical in promoting economic inclusion programs because they aid in identifying community needs, achieving community buy-in, and facilitating financial education. In this regard, she advised that the FDIC has taken a leadership role in working with the 14 regional AEIs across the country to promote financial services for underserved communities and in identifying local strategies to meet those goals and that, through the efforts of the AEI coalitions, approximately 72,000 accounts have been opened and approximately 60,000 individuals have received financial education.

Mr. Villafranca then began his presentation by identifying the financial characteristics and behaviors of many LMI individuals, including their use of alternative service providers, payment of high fees or interest for financial products, making questionable financial decisions, lack of a noticeable budget, lack of access to "brick and mortar" bank or credit union locations, limited financial knowledge, low or no credit scores, lack of credit cards, lack of a U.S. or state identification, and payment in cash for all purchases and obligations. He next identified as the elements of successful programs the establishment of trust among partners and with the underserved community; education, both financial education about custom products and services; having the right kind of partners, including community-based and faith-based organizations, government agencies, private businesses, advisory boards, and those who can provide professional and technical assistance; understanding the partnership agendas and goals as well as those of individual partners; taking an inventory of resources within the community; determining what assets are brought to the table by partners; ensuring transparency with respect to goals, measurements, operations, leadership, and issues; measurement of short- and long-term outcomes; and celebration of successes. Addressing some of the differences of working with public and private partners, Mr. Villafranca advised that public partners generally have very specific goals, many of which may be legislative, have fairly strict boundaries within which they must operate, typically have budgetary constraints, have a connection to the target population that is usually legislative, have extensive historical knowledge, are generally transparent, and typically must navigate layers of management, whereas private partners have goals that are more entrepreneurial in nature, generally have less rigid boundaries, have more budgetary resources, oftentimes with a philanthropic bent, in some instances may have a weaker connection to the target population, have to contend with fewer policy issues, and offer various and unlimited possibilities.

Concluding his presentation, Mr. Villafranca provided an overview of three successful economic inclusion partnerships: the Texas New Alliance Task Force, a coalition of financial institutions, community-based organizations, government agencies, and other stakeholders, the goal of which is to improve access to the U.S. banking system for immigrants and take concrete steps to carry out the Action Plan outlined in the U.S.-Mexico Partnership for Prosperity Agreement; Raise Texas, a statewide network of public institutions, the FDIC included, and private organizations, the goal of which is to raise the financial success of Texas residents through asset-building activities; and Bank On California, a diverse statewide coalition of the Office of the Governor, financial institutions, financial institution regulatory agencies, community organizations, and mayors, the goals of which are to raise awareness, boost financial education, develop and market starter accounts, and help people make better financial decisions. Elaborating on the Bank On California campaign, he stated that most of the new accounts aretransaction accounts, evidence that there is a high demand for such accounts; that each account opening is accompanied by an offer of financial education, with financial education mandatory for those listed in ChexSystems; that the initial goal had been to open 100,000 accounts in two years; that the Governor had recently announced that the campaign has exceeded 100,000 accounts in just one year and, therefore, set a new goal of 200,000 accounts by year-end; and that the success of the campaign was due in no small part to media coverage via radio, television, and the internet and the fact that a message of empowerment is one that resonates with people.

Committee Chairman Taylor asked for more information on how account openings are tracked for the Bank On California campaign, in response to which Mr. Villafranca advised that individual institutions report data by zip code on new demand deposit and savings accounts opened by any individual who does not currently have an account in a financial institutions, as well as data on accounts that have been closed during the quarter, allowing calculation of the net number of accounts, with information also collected on a number of other data elements, including number and dollar amount of waived or refunded non-sufficient fund fees and average account size. Ms. McConnell, noting that the AEI coalitions use voluntary data collections on the number of accounts opened and that there are opportunities to capture information at the time an account is opened, offered her opinion on the importance of including a reporting mechanism in whatever recommendation is made by the Committee.

A brief discussion followed, during which Committee members were complimentary of Mr. Villafranca's passionate approach to the issue of economic inclusion and the leadership of FDIC and its cadre of Community Affairs staff. Other topics touched upon were the importance of partnerships, the need to expand the effective use of technology and media in promoting programs to meet the financial needs of the underserved, the value of customer relationships, and the value of having a template with common elements, yet allowing users to add features to tailor products to the needs of their target populations.

Vice Chairman Gruenberg then indicated that the information shared during the meeting and the previous day at the meeting of the Strategic Planning Committee had focused his thinking on the issue of economic inclusion and that, in his opinion, there are two strategic questions that need to be answered: the "what," as in what is the product, and the "how," as in how to get that product disseminated. He further indicated that, increasingly, his view is that the product should be a debit-based account with a low monthly fee that provides the same benefits as a checking account and also serves as a vehicle for savings or perhaps even a line of credit. Regarding how to disseminate the product, he stated that it was clear from Mr. Villafranca's presentation that there is a range of activities to facilitate dissemination. He concluded that, if the Committee can develop a cost effective product that meets the particular needs of the LMI community, significant progress, significant progress will have been made.

Ms. Lazar then introduced Barbara A. Ryan, Deputy to the Vice Chairman; Ruth R. Amberg, Senior Counsel, Consumer/Compliance Section, Consumer and Legislation Branch, Legal Division; Luke H. Brown, Associate Director, Compliance Policy Branch, Policy, DSC; Luke W. Reynolds, Chief, Outreach & Program Development Section, Community Affairs Branch, Consumer Protection and Community Affairs, DSC; and Rae-Ann Miller, Special Advisor to the Director, Division of Insurance and Research, to discuss progress on development of the Committee's Strategic Plan.

Ms. Miller began by summarizing the background, mission, and vision sections of the Strategic Plan document, explaining that background information on the unbanked and underbanked provides highlights of the FDIC's *Household Survey* and addresses the reasons it is important that people be banked; that the mission statement primarily mirrors the Committee charter; and that the vision of the Committee is to support research, demonstration projects, and pilots and sound policies that are intended to improve appropriate engagement with mainstream financial institutions through its advice and recommendations. Ms. Ryan then summarized the objectives section of the Strategic Plan document, noting that the two basic objectives of the Committee are lowering the level of underserved households and increasing the supply of financial products and services targeted to underserved households. Next, reporting on various work group initiatives identified in the Strategic Plan document, Ms. Ryan briefed the Committee on the progress of the Transactional Accounts Work Group, Ms. Miller briefed the Committee on the progress of the Savings and Affordable Credit Work Groups, Mr. Reynolds briefed the Committee on the progress of the Financial

Literacy Work Group, and Mr. Brown briefed the Committee on the progress of the Incentives Work Group.

A discussion followed during which Professor Tufano noted that previous meetings of the Committee had addressed several issues, such as safe and affordable mortgages and consumer protection issues, that despite not being included in the strategic plan, still require attention. Expressing agreement, Chairman Bair suggested that a sixth work group be formed to develop initiatives specifically related to mortgages and, voicing her particular interest in children's savings accounts, also requested that the Savings Work Group take a look at developing an initiative addressing that topic. Included among several suggestions made by Mr. Ryan were a suggestion that more emphasis placed on a savings mechanism in connection with sample template for the transaction account; a suggestion that, however the products are structured, an effort be made to get local input and buy-in at the implementation stage; and that it is important to map out for financial institutions how they can offer the products in a sustainable, profitable way. Chairman Bair agreed on the importance of the need for grassroots buy-in and suggested that, when public comment on the templates is solicited, the FDIC should request feedback on how to build local support. Mr. Boston, noting the success of the Small-Dollar Loan Pilot, suggested that it is important to advertise that success and to reward the pilot participants, in response to which Chairman Bair said that the FDIC is definitely interested in expanding the product and that CRA credit is offered for the small-dollar loan product, with staff currently exploring ways to make the credit more meaningful. Mr. Steel emphasized the importance of quantifying the savings and benefits to LMI consumers resulting from successful initiatives, with Chairman Bair indicating agreement on the development of metrics to measure program success.

Then, on motion of Mr. Eakes, seconded by Mr. Steel, the Committee unanimously adopted the Strategic Plan. Next, on motion of Mr. Steel, seconded by Chairman Bair, the Committee unanimously approved the solicitation of public comment on the sample savings and transaction account templates.

There being no further business, the meeting was adjourned.

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

April 1, 2010

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

April 1, 2010 - 8:40 A.M.

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

Diana L. Taylor
Chairman
FDIC Advisory Committee on Economic Inclusion

Dated: July 22, 2010