FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON ECONOMIC INCLUSION

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MEETING

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WEDNESDAY,
OCTOBER 24, 2018

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The Advisory Committee convened at 9:00 a.m. in the Federal Deposit Insurance Corporation Board Room, 550 17th Street, N.W., Room 6010, Washington, D.C., Jelena McWilliams, Chairman, presiding.

PRESENT:

ROBERT ANNIBALE, Citi
MICHAEL BARR, University of Michigan Law School
JANIE BARRERA, LiftFund
TED BECK, National Endowment for Financial Education
KELVIN BOSTON, Boston Media, LLC
JOSE CISNEROS, City and County of San Francisco
MARTIN J. GRUENBERG, FDIC Board of Directors
WADE HENDERSON, Leadership Conference on Civil Rights
ANDREA LEVERE, Prosperity Now
PATRICIA MCCOY, Boston College Law School
ALDEN J. MCDONALD, JR., Liberty Bank and Trust
JOHN W. RYAN, Conference of State Bank Supervisors
PHILIP SWAGEL, University of Maryland, School of Public Policy
JOHN WEICHER, Hudson Institute

ALSO PRESENT:

PAUL ADAMS, Head of Behavioural Economics & Data Science Unit, FCA
DESMOND BROWN, Deputy Assistant Director, Community Affairs, Bureau of Consumer Financial Protection
KARYEN CHU, Chief, Consumer Research, Division of Depositor and Consumer Protection
THOMAS DAUGHERTY, Vice President, Eastern Bank, Lowell, Massachusetts
HEATHER DONOVAN, Young Adult Department Supervisor, Career Center of Lowell
KEITH ERNST, Associate Director, Consumer Research, FDIC
KATHRYN FRITZDIXON, Senior Financial Economist, FDIC
ALICIA LLORO, Senior Financial Economist, FDIC
JEFFREY MANNING, Community Affairs Specialist, FDIC
JONATHAN MILLER, Deputy Director, Policy and Research, Division of Depositor and Consumer Protection, FDIC
JEROEN NIEBOER, Technical Specialist, Behavioural Economics & Data Science Unit, FCA
LUKE REYNOLDS, Chief, Outreach and Program Development, FDIC
JEFFREY WEINSTEIN, Senior Financial Economist, FDIC

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P-R-O-C-E-E-D-I-N-G-S

9:10 a.m.

CHAIRMAN McWILLIAMS: Good morning, everybody. It's a pleasure to have you here, and I'm actually really excited for today and for our discussion. And I was told that this is a very, very, very engaged group and a very, very, very not shy group. So I'm going to take that as a good sign and I think we have a lot of work to do in the areas in which this committee is focusing on. And for me, some of those topics are personal.

And I told my staff, I sound like a broken record, but I'll say it once and then I won't say it again. So when I first came to the United States, 26, 27 years ago, I had $500. I literally had $500 in my pocket and I couldn't get a credit card. I couldn't get a loan. I could open up a checking account and I did that on my second day in the United States. And I have that account to this day, same account.

They used to send -- I don't know if people remember -- they used to send periodic statements with a little write up about people who had 25 years with the bank, 50 years with the bank. So that statement never came for me, but that's okay. I'm not holding it against the bank. I am.

(Laughter.)

But I leveraged my $500 to open up a credit card because I really needed to become a part of the financial system and I secured my credit card with I think about $300 out of the $500 and then I was left with $200 which is not really easy to live on. But after 12 on time monthly payments, I was able to get my money back, $300 with some interest, and I had a credit card. And so when I went to a grocery store, it was Food For Less, to this day, when I see the yellow Food For Less signs, I just have this reaction.

I was able to pull a credit card out of my wallet, and I looked like everybody else. So for me, that credit card wasn't just a piece of plastic. It was my entry into belonging, because I looked like everybody else in the line.

So with that, I just want to let you know that

I personally am very interested in the issues that all of you around the table, together with our staff, are addressing. And there's certainly more work to be done as we look to bring more people into the fold and ensure that they have safe consumer products and services. And I personally want to thank you and the FDIC staff on all the work that has been done in this area thus far. So with that, I don't want to take too much time.

Marty, would you like to say anything? All right.

Jonathan?

MR. MILLER: Thank you very much, Madam Chairwoman. So I wanted to just we're handing over to the Karyen and the Survey Team, I just wanted to say for a quick second because they won't say it about themselves, I cannot underscore enough the hard work and dedication that under Karyen Chu's and Keith Ernst's leadership, this team, of the presenters and others that have worked with them, the effort that they put into producing this really monumental study and survey report that you have.

They work hard.

At the same time that they're putting this report together, we're also developing the instrument that's going to be out in the field next year to do the next survey. It's really a non-stop process and their devotion and commitment is really incredible, and it comes through in the quality of the work.

(Applause.)

Let me hand it over to Karyen for this section.

MS. CHU: Well, thank you, Jonathan. That was very kind. Chairman McWilliams, members of the committee, we are delighted to be here today to present the results of the 2017 FDIC National Survey of Unbanked and Underbanked Households.

As many of you know, this is the fifth time that we have done this survey. With each administration of the survey, we try to balance maintaining measurements over time, as well as adding new questions that broaden and deepen what we know about unbanked and underbanked households' use of a wide range of financial services.

In the 2017 survey, we have some new questions about credit and also some new questions about bank branch visits that you will hear about. And we also ask about mobile financial activities that we last asked about in 2013.

This survey, as Jonathan noted, is an undertaking that could not have been accomplished without the hard work and dedication of over a period of more than a year of an entire time of researchers whose names we have listed here. I would like to acknowledge their work.

I have with me today the three authors of the report. Jeffrey Weinstein at the end and Alicia Lloro right next to him, who are both economists in the FDIC's Division of Depositor and Consumer Protection. Next to me is Kate Fritzdixon. She is an economist in the FDIC's Division of Insurance and Research. I would like to thank Kate for stepping in and taking a lead role on very short notice earlier this year when we faced some staffing challenges. I would also like to thank the leadership of the Division of Insurance and Research for making Kate available to take a lead role in the analysis and the writing of the report.

It is my pleasure now to turn the microphone over to Jeffrey.

MR. WEINSTEIN: Okay, great. Thank you, Karyen. So just a brief background on the survey. In partnership with the U.S. Census Bureau, the FDIC conducted its fifth biennial household survey in June 2017. The first survey was conducted in 2009. The goals are the survey are to provide reliable estimates of unbanked and underbanked population as well as insights into how banks might better meet the needs of these consumers.

The sample is nationally representative with over 35,000 respondents and estimates are available at the national and state levels and for larger metropolitan statistical areas.

All right, so before we dive into the

results, I just want to give a brief overview of the agenda. This presentation is going to focus on the big picture results. Additional topics are covered in the full report. So we'll begin with banking status of U.S. households, then move to methods to access accounts, bank branch visits, alternative financial services, households with no mainstream credit, mainstream small dollar credit, and then economicinclusion.gov.

So in 2017, 6.5 percent of U.S. households were unbanked meaning that nobody in the household had a checking or savings account. The unbanked rate in 2017 fell to the lowest level since the survey began in 2009. And the 0.5 percentage point decline in the unbanked rate from 2015 to 2017 can be explained almost entirely by changes in household characteristics across survey years, particularly improvements in the socio-economic circumstances of U.S. households, including income, educational attainment, and employment status.

In 2017, 18.7 percent of U.S.

households were underbanked, meaning that the household had a checking or savings account, but also used a product or service from an alternative financial services, AFS, provider in the past 12 months such as a check cashing or payday loan. The underbanked rate declined by 1.2 percentage points from 2015, and approximately half of this decline can be explained by improvements in the socio-economic circumstances of U.S. households.

Turning to slide 7, as in previous years, unbanked and underbanked rates varied considerably across the population. For example, unbanked and underbanked rates were higher among lower income households, less educated households, younger households, black and Hispanic households, households headed by a work-engaged individual with a disability, and households with volatile income.

And just to focus on a couple of groups, moving to slide 8, so in general, unbanked rates in 2017 were lower than or similar to unbanked rates in recent years for most segments of the population. Recent declines in unbanked rates, as shown on slide 8, have been particularly sharp for younger households. So for example, among households age 25 to 34, the second set of bars, the unbanked rate in 2017 was 8.5 percent, and that's down from 10.6 percent in 2015 and 12.5 percent in 2013.

Moving to slide 9, which focuses on unbanked rates by race and ethnicity, unbanked rates among black and Hispanic households have also sharply declined in recent years. Specifically, 16.9 percent of black households were unbanked in 2017, down from 18.2 percent in 2015 and 20.6 percent in 2013. And for Hispanic households, 14 percent were unbanked in 2017, down from 16.2 percent in 2015 and 17.9 percent in 2013. However, despite these improvements, unbanked rates for younger households and for black and Hispanic households remain substantially higher than the overall unbanked rate of 6.5 percent in 2017.

So moving to slide 10, which describes unbanked rates by state in 2017, so as in previous years unbanked rates in 2017 varied widely across states. Unbanked rates ranged from 1.5 percent in Vermont and Minnesota to 15.8 percent in Mississippi. So if we look at the graph, the darker colors indicate higher unbanked rates.

In general, unbanked rates were highest in the South, where 7.7 percent of households were unbanked, and that's compared with 5.4 percent in the Midwest and 6.0 percent in the Northeast and West. And then although not shown here, underbanked rates in 2017 also varied widely across states. The picture is quite similar.

So moving to slide 11, unbanked reasons. The 2017 survey asked unbanked households about the reasons why they did not have a bank account. Findings are similar to those reported in previous years. And so we can see from the graph here that in 2017 more than half of unbanked households, 52.7 percent, so looking at the top bar, cited do not have enough money to keep in an account as a reason for not having an account, and this is the most commonly cited reason. It was also the most commonly cited main reason for not having an account, 34.0 percent, so the lighter blue bar directly below it.

In terms of the second most commonly cited reason, three in ten unbanked households cited don't trust banks as a reason for not having an account. And this reason was also the second most commonly cited main reason.

So moving to slide 12, as in previous years, the 2017 survey asked unbanked households about their likelihood of opening a bank account in the next 12 months. And we can see from the graph here which gives the proportions from 2013 to 2017, the proportion of households that were not at all likely to open a bank account in the next 12 months, we can see that this is increased from 40 percent in 2013, to 58.7 percent in 2017. This increase is fairly widespread across segments of the unbanked population.

And we also observed that 36.2 percent of households that were not at all likely to open a bank account in the next 12 months, cited don't trust banks as a reason for being unbanked, compared with 21.0 percent of households that were very likely to -- unbanked households that were very like to open a bank account in the next 12 months.

Moving to slide 13, bank account ownership is not static. Nearly half of unbanked households in 2017, 47 percent, had a bank account at some point in the past and this is very similar to previous years. In addition, interest in opening an account in the next 12 months was higher among unbanked households that had a bank account at some point in the past, compared with unbanked households that never had an account.

All right, and I will now turn the presentation over to Kate, who will discuss methods used to access bank accounts.

MS. FRITZDIXON: Okay, so now we're going to turn to banked households for a little bit. As in previous years, we asked banked households about all the methods that they used to access an account during the past 12 months. And the trends we've seen this year have been similar to trends we've seen in the past. Mobile banking use increased sharply so in 2017, 40.4 percent of households used mobile banking as a means of accessing their account compared to only 23.2 percent in 2013.

Online banking as a access method also increased. And we see the bank teller as an access method decrease. It fell to 73.6 percent of households in 2017, but this is still the most prevalent method used for accessing a bank account.

In addition to the questions about all methods households used to access a bank account, we asked specifically about their primary method of accessing an account. And again, we see similar trends, although the increase for mobile is sharper. So mobile, as a primary access method, almost tripled between 2013 and 2015. One in six households used mobile banking as their primary method. Online actually fell slightly between 2015 and 2017. We can see it's up from 2013. And bank tellers similarly declined. Although the bank teller remains the second most common primary method of accessing an account.

And one thing to point out with primary methods, you know, access methods varied across household demographics. But mobile banking, as the primary method of accessing your account, was more prevalent among underbanked households than among the fully banked. So those are households who have a bank account and do not use any of the alternative financial services.

So we wanted to look a little more in depth at some of these access methods. So like Karyen said, we asked questions about what mobile activities households performed which were last asked in 2013. And across the board, the use of the different mobile activities increased as we would expect with the rise of mobile banking. A few were particularly dramatic, so depositing a check electronically, the second from the lowest option on this list, you can see tripled between 2013 and 2015. 18 percent of households deposited a check electronically in 2017.

So next we looked in a little more detail at use of bank tellers to access an account. Like I said, it remains prevalent, kind of across household characteristics, but it was particularly prevalent among a few segments, particularly lower income households, less educated households, older households, and households located in a rural area. These groups of households were also disproportionately more likely to only use tellers to access their accounts.

As Karyen mentioned in the beginning, we added questions this year about bank branch visits. So households were asked how many times in the past 12 months they had visited a bank branch and spoken in person with a teller or other employee. Households may visit a branch to access their accounts which was asked about in the past, but also to learn about new products or services or to resolve an issue they have with their account.

Overall, bank branch visits were very common. Eighty-six percent of households visited at least once in the last 12 months and more than a third visited ten or more times in the past 12 months. And we see this across different segments.

A few groups of households were particularly likely to visit a branch. Rural households, in particular, were more likely to visit a branch. And almost half of them visited 10 or more times in the past 12 months. The rural households do seem to be relying on branches for many activities.

We also, somewhat surprisingly, found that even for households who do not use tellers as their main access method for their account were likely to visit a branch. Households who used mobile as their primary access method, for example, more than 80 percent of them visited a branch in the past 12 months, and about a quarter of them visited 10 or more times in the past 12 months. And the patterns, as you can see, are family similar for households who use online as their primary access method.

So turning to a different topic now, we

also asked about alternative financial services use in the past 12 months. These are questions that have been asked over the past several surveys. We can categorize these services into two sets. So transaction AFS, these are good questions we asked about our nonbank money orders, nonbank check cashing, and nonbank international remittances. For credit AFS, the products we asked about are pay day loans, pawn shop loans, rent-to-own service, refund anticipation loans, and auto title loans.

And overall, what we see is that AFS use continues to decline. Overall use fell from 24.9 percent of households in 2013 to 24 percent of households in 2015, and 22.1 percent of households in 2017. We see a consistent downward trend in transaction AFS, but while credit AFS fell between 2015 and 2017, it's at about the level it was in 2013.

So we can also look at AFS use by banking status. For unbanked households who tend to use AFS more frequently, both transaction and credit AFS use declined. For banked households from 2015 to 2017, transaction AFS use declined.

Now I'll turn it to Alicia.

MS. LLORO: Thanks, Kate. So the 2017 survey included some new questions to capture the full range of credit products that are likely reported to the major credit bureaus. So we call this credit "mainstream credit." These products include credit cards, auto loans, student loans, mortgages, home equity loans, and lines of credit, personal loans or lines of credit from a bank, and also personal loans or lines of credit from a company other than a bank, such as a finance company loan.

So in 2017, about 20 percent of households had no mainstream credit in the past 12 months. So these households likely did not have a credit score and likely faced substantially reduced access to mainstream credit.

Looking across household characteristics, several groups were more likely not to have mainstream credit: unbanked households, households with lower income, less educated households, households headed by a working age person with a disability, black and household households, and foreign born, non-citizen households.

Differences by income were especially pronounced. Looking at households with an income less than $15,000, over half of them had no mainstream credit. More than a third of households with income $15,000 to $30,000 had no mainstream credit. This is compared to only about 4 percent of households with at least $75,000 in income.

There were also large differences by disability status and race and ethnicity. We showed disability status on the left, about 40 percent of households headed by a working age person with a disability had no mainstream credit. Looking at race and ethnicity, about a third of both black and Hispanic households had no mainstream credit. This is compared to only about 14 percent for white households.

So digging into race and ethnicity a

little bit more, one of the things you might be thinking is maybe it's an income story because I showed you large differences by income, but one thing that was striking is if we look across income categories, the pattern remains. In fact, if we look at the two highest income groups, we have the $50,000 to $75,000, both black and Hispanic households were more than twice as likely as white households not to have mainstream credit. And for the highest income group, black households were nearly three times as likely as white households not to have mainstream credit. And Hispanic households were about twice as likely. In fact, even when we control for more characteristics, these patterns remain.

Turning to geography, we have no mainstream credit by state, so the patterns look somewhat similar to what we find for the unbanked. The rates of no mainstream credit are much higher in the South. The state with the highest rate of no mainstream credit was Mississippi and that's nearly 40 percent of households had no mainstream credit, which was strikingly high. The lowest state was Minnesota with 8.1 percent. They also had the lowest unbanked rate, I believe.

So now we turn to mainstream small dollar credit. So we define mainstream small dollar credit to include credit cards from Visa, MasterCard, American Express, or Discover and also personal loans or lines of credit from a bank.

So we classify the household as having unmet demand for mainstream small dollar credit, if any of the three situations apply. So the first one is if they applied for a credit card or personal loan or line of credit from a bank, and were either denied or not given as much credit as they applied for. The second situation is if they thought about applying for these products, but didn't do so or changed their mind because they thought they might be turned down. And then the third condition is if they used one of the credit AFS products that Kate mentioned.

So we find that 12.9 percent of households had unmet demand for mainstream small dollar credit in 2017. So staying current on bills is one potential indicator of credit worthiness that we asked about in the survey. And we find that over half of these households did stay current on their bills in the past 21 months.

So that wraps up the contents, the new content for the presentation. As Jeffrey mentioned, we have more results and more things in the full report, which you can take a look at. And then finally, I'd just like to wrap up with a brief advertisement for our economicinclusion.gov website. So here you can find the full report, along with the executive summary and many, many appendix tables.

(Laughter.)

Probably took way too long to put together, but they are there for you. We also have a custom data table and a custom chart table, so if you're interested in making your own tables that you couldn't find in our big block of appendix tables, you can do so -- you can make your own charts.

Something new that we have this year are five-year estimates of unbanked and underbanked rates. So these estimates combined data from three consecutive surveys to give us a much larger sample. So since we have a larger sample, the estimates are more precise and we were able to provide them for more geographies and more subpopulations than we have in the past. So we have more documentation that describes the estimates and how to use them on the website as well, if you're interested in those. So this is something that's been a long time in the making so we're happy to finally have those out there.

And then finally for users who are interested in the raw data, we also have that available along with documentation. Thank you very much. I'll turn it back to Karyen.

MS. CHU: Thank you. Now we're happy to take any questions. Bob, and we'll just go around --

MEMBER ANNIBALE: Just one. First thing, just thank you again. I mean the report is excellent. The data that's available allows us to do analysis down on a market basis, on a state basis, and regional basis, but also as Wade and I have talked about, this aggregating data, how critical it is.

As we achieve numbers that -- when you see the number for whites, for example, especially on race at 3 percent. That's amazing. And that will include whites who are from the disability community as well, which are at a very high rate, right? Or self-disclosed, right?

So when you really look at and we disaggregate by sector, I'm talking about unbanked, let's call it from there. We really have our tasks that helps drive where we should spend more time. And I think it's important that we always disaggregate. Those last slides were really helpful. I will be doing it all of your categories. Because -- and the same kind of reasons for not having an account, I think it would vary enormously. If you do -- and I know we have it in the raw data because I always use -- we do a lot of work with immigrant integration. So if I look at foreign born and then foreign born citizen, we always had a dramatic change in the amount -- the drop in the unbanked. It was like a third, I think of the -- so foreign born. And when you become citizen and why we push citizenship so much, we see a huge drop.

And I think the reasons for being unbanked, if you do, for example, immigrants or foreign born if you use that as a proxy, will be things like documentation. We were concerned that they don't have documentation, but that didn't appear. So just as a sample, it would be a smaller part of the whole.

And I think as we look at why black or Hispanic, what are the reasons by community, that's how I think we can then try to attack the causes because now our challenge should be the disparity, really the geographic and Mississippi didn't surprise me. I've never been --

(Laughter.)

-- so I self-disclose, but it usually

ranks amongst the poorest states in the country, right? I mean the other socio-economic categories. So it would correspond here.

But I think as we disaggregate, we can then go deeper into what's our strategy for different communities.

MS. CHU: Thank you. So we do have, as Alicia mentioned, we have I think over 80 appendix tables on the site that do a huge amount of disaggregation. We show the rates and a lot of these measures by many, many, many different socio-economic and demographic groups. And also on the economicinclusion.gov, we have a custom tool where you can create your own tables and so you can disaggregate to different communities, different subgroups within communities. Now the caveat is obviously with 35,000 households, the smaller the community, the smaller the sub-population, right, we start to run out of sample. And that's actually where the five-year estimates are coming in to be particularly helpful because we recognize that that was a gap and that people really were hungering for information at smaller geographies for smaller subgroups. And so we actually worked with the Census Bureau to develop weights, right, to correctly account for sort of the sampling over three different surveys so that we could actually combine the data, you know, statistically soundly, right, and produce sound estimates that would give us more geographies and importantly also more subgroups within geographies. Thank you.

Michael?

MEMBER BARR: Just to echo Bob in thanking you all once again for this really amazing report and set of data analytic tools. I've played around a little bit on your website over the years, and it's always getting better and it's really exciting to have that opportunity to play with the data and I'm deeply appreciative for the work that went into this.

I just -- continuing along the line with Bob, I mean I'm struck in this survey as I was in the previous ones about the concentration, the overwhelming weight of the rural African-American

South and producing the unbanked numbers and the lack of access to mainstream credit in the rural African-American South.

I think we ought to think about how to use that to drive resources to work on the problem in a much more concentrated way. I'm not saying there aren't other problems. Obviously, the issues with immigrants to our country is another big area of focus, but if we could think about what on the ground would actually move the needle on that in some more precise way.

So for example, I'll make something up because I don't see it in the data, but let's say the problem of trust among rural African-Americans, southern population is because of the lack of diversity in tellers in banks and their communities. Again, I don't know from the data, but we could at least wonder whether that's part of the factor -- could there be a concentrated effort on improving diversity of tellers in those communities?

If it turns out it's driven by something completely different, if it's driven by dispersion of the population that can't be readily fixed by building branches, that would be another issue. It would be useful to just put a ton of energy into figuring out what the answer or set of answers to that question is.

MS. CHU: Thank you, Michael. So one of the major goals of us putting out the survey, the data tools, et cetera, is to allow communities, groups, industry participants to dive deep into the data to answer the specific questions that address and help them think about how to address these issues in their communities. So you know, greater publicity for these and certainly we know from sort of being out in the community that community groups know about this. Banks know about this. They do use it, and we try, you know, as you mentioned, to improve the capabilities each time and to give more additional data points that are helpful.

Janie.

MEMBER BARRERA: Karen, thank you all for this work and just to follow up on that, I think what I would like to do is how do we connect the CDFIs that are out in our communities with this data because it's the CDFIs who are the feet on the ground. They're the resources that are out there. So let's look at national organizations that work on CDFI issues, and I think in some way there's a way to connect dots with CRA on this with this data as well and we all know there is information or they're reflecting information on CRA right now. So if we use this data and connect the dots would be something that I would look forward to helping with.

MR. MILLER: I just -- to take a moment on that point specifically -- your first point, Janie. So we work closely with our consumer community affairs folks that are out in the communities.

MEMBER BARRERA: We see them out there right now.

MR. MILLER: Yes, you do. And with this data we bring it to the -- we have many, many meetings with local groups and talk -- use the data tools that Karyen is talking about and make sure they understand what's going on and I think your point is well taken and Ms. Ortiz and her shop, and the folks you see behind me, are doing that, and always looking for ways to do it better, including connections to CDFIs. Great point.

MEMBER BECK: Very good work. Very important. I have two things, and they might be wish list items for the next edition. And for the first time I'm actually not going to ask an education question.

(Laughter.)

But I was struck by -- maybe two years ago we had a series of presentations about people with disabilities and the challenges they face. And those numbers are very evident here again. And I don't know if it could be fair to add to the work you've done or the next round, access to ABLE accounts.

Is that going to be make a difference because that was a very specific barrier to what is obviously a very big challenge. So tracking that access and how that translates into people then being comfortable in getting into the banking system and saying they have enough assets would be a really interesting number. And that again, might be for the future.

The second thing, the trend lines are good. But it's also -- it's very hard to figure out is that the economy, because people are working? Or is there any specific effort from the banking community that's actually improved the numbers? So I don't know if it's possible to say what has the change in the attitude of the banks offering a basic account, a safe account, marketing plans for inclusion, are they a part of the improvement or is it strictly the rising tide, all boats. So if there's a way to ferret out that marketing hopefully success, especially going forward on the communities we just talked about would be really helpful.

MS. CHU: So on your second question, our data we're presenting is at a national scale, right? What we do see is that the improvements from 2011 when it was -- unbanked rate was the highest, to 2017 now, that much of the -- much of it, but not all of the improvement can be attributed to improving socio-economic situation of households.

What was the percentage? Do you remember, Alicia?

MS. FRITZDIXON: It was about two thirds.

MS. CHU: So about two thirds of the decline in the unbanked rate could be explained by basically improvements and inter-economic conditions, but about a third could not be explained by that.

Now we can't tell you what that additional third is, but certainly, I think, lots of factors go into those improvements in the additional third.

MR. MILLER: I thought it was the work of the committee.

(Laughter.)

MEMBER BECK: That's kind of what I was

hoping to hear, actually.

MEMBER BOSTON: I think it's excellent work, as always. I have two thoughts. One is moving forward the next time, I think you may want to see if we can expand our survey base. I have a feeling that we may be missing many poor Americans who may not have access to the service. And maybe we may want to look at for some additional nonprofit organizations or some other way that we can add to this great work, because I hate for people to get the misconception that things are improving for everyone when we know there's a large group of Americans who are just a difficult time financially. And they may not be represented in this group.

That's not to take away anything that you're doing. I think this is phenomenal work. It's just something, I think, maybe we might want to think about, how we can expand moving forward so we can get a broader look at this issue.

The second question I have I thought is always is my people who are at the top, African-Americans, and we have to do some issues among our community. But I was really concerned about no mainstreamed credit. And the fact that even if your income rose, it seems that might be a real issue for people of color in the United States. They would look at why or do we have any -- or is it just because it's not in the banking system? Is that something we need to try to look more to? I'm just asking a question so I can get a better understanding.

And then also is there systemic issues which I believe there is, but -- that we might want to look at in terms of our credit scoring system in the United States where it becomes an issue for a person who does not have credit, who may choose to be debt free and still be -- have issues when it comes to no financial success in the United States.

So these are just some questions that maybe we want to think about, but great report. Thank you.

MS. CHU: Thank you. Jose?

MEMBER CISNEROS: Yes, thank you, and congratulations again, wonderful report and continued excellent data.

A couple of areas I wanted to comment on and the first one is really my continued satisfaction in seeing the information about use of bank branches. I think we're all very often excited about new and exciting technologies and patterns and practices of mobile or online and new ways of working with our bank branches that we might unfortunately forget that there's a large portion of folks that still do banking the old fashioned way and walk in and talk to a human being, and travel to a brick and mortar bank branch. And I don't want to forget those folks.

I may have mentioned this before, but in our children's savings account program in San Francisco, where we to date have opened 35,000 college savings accounts for children in our public school district, I'm impressed, always impressed there that the large proportion of people that make their deposits into that account by again walking themselves into a bank branch. A huge portion of first time deposits are made in the bank branch, and a significant number of all of the deposits -- even repeat deposits -- are still made by folks walking into a bank branch. And that program, much like the universe we're looking at here, we're looking at the lowest income, most underserved and vulnerable constituents. And I think that this just reinforces how important it is for us to see the value of bank branch access to these populations that we're trying to reach and trying to bring success to.

I have one other nuance on the bank branch access that I think we need to stay alert to and that is the value of services and the value of assistance that folks are getting when they do go into the bank branch. Our city, like many cities across the country, through our Bank On San Francisco and Bank On programs across the country, are now reorienting and focusing on the new safe accounts that many banks are offering thanks to the good work of the FDIC and the Coalition of Cities for Financial Empowerment, has brought now upwards of I think close to two dozen banks that are offering truly safe accounts with no overdraft opportunities.

The story though I want to tell is that in the last year, we actually did some secret shoppers -- sent some secret shoppers out into bank branches in our city to banks that offered these now overdraft-free accounts. And we got, unfortunately, varying degrees of quality of information through our secret shopper efforts. In some places, that safe account was completely not discussed or even offered to someone who was clearly asking for it. And so we shared those results with our partner banks and to their credit, many have redoubled their training efforts in that.

So it brings me to given the importance of bank branch -- of performance, folks in the bank branches, I wonder if we might want to find a way to see how people felt they were served when they went into those bank branches, and maybe that's a question we can ask across all the access levels.

Are your banking partners, you know, giving you what you need? What's the quality of the service you're getting? No matter what method you're using and if you happen to be going into a bank branch, are you getting the assistance? Are you getting the support? Are you getting the information that's needed? Or was something missing? Did it become a deterrent in some way or lead to confusion or lack of options? So I just want to keep delving into that, and particularly don't want to forget how it works with bank branches.

And then I have one other area. I can't recall if we include this as well, but I wonder if we ask people about their overdraft experience. Again, particularly now when we finally have an option that's overdraft-free, I wonder how vital that could be and how much of a savings that could be for folks who are not in an overdraft-free account. I wonder if we could maybe gather some information about did you have an overdraft last draft or in the past year or whatever, and if so, how many? Similar to the way we ask about the rates of other types of experiences that people are finding, how much did that cost you? You know, what kind of an impact did that have on you? What caused the overdraft? I can see where that would be really valuable and particularly in this world where now we have a safer alternative, I can see where that data could be very important and lead us towards the audiences we need to bring these new safe accounts to. Thank you again for your work.

MS. CHU: Thank you. Director Gruenberg?

DIRECTOR GRUENBERG: Actually, I'll pass and give the members of the committee first dibs. I'll come back later.

CHAIRMAN McWILLIAMS: Oh, no, no. Now I have to give it to you.

(Laughter.)

MEMBER HENDERSON: Well, good morning, everyone. And again, I'm Wade Henderson, by the way. I'd like to add my congratulations to the remarks that you've gotten from all of the committee. Great work, tremendous research. Thank you for doing it.

I want to do a bit of a follow up to a question that Michael Barr began raising about targeted assistance. And I'm looking at slide 7, slide 9, and slide 10. Seven lists the household characteristics, and I think you have six characteristics listed that it seems to me are higher among those households. And there's a lot of overlap, I suspect. If you were to put these characteristics together, it would produce a particular profile of an African-American or Latino household, lower income, less well educated, perhaps younger, indeed working age disability could be a factor, although I agree, it needs to be disaggregated, and the volatile income characteristics. So those factors seem to suggest a population of individuals.

Now this may be beyond the ability of your working group to assess, but I'm wondering whether you have an overall assessment of the number of individuals, not just the percentage involved. What would you think would be the number of people in these categories? So that's one question. And if it's not possible to determine that from the survey data you assembled, is it possible that you could recommend an agency or an organization that might already have access to that data because they're looking at it somewhat differently.

Secondly, on number ten, you have the states, the unbanked states and it's clear that the South, the old South and dare I say it, the old confederacy, share certain characteristics that are clearly relevant to assessing where investments and additional resources are needed and so I would be interested in hearing your perspective on that because it ultimately goes to my over-arching question which is based on the data that you have assembled, what are the implications of this data going forward for the country as a whole? What do you think this data says about where we are at this moment in time and knowing what you do about the changing demographics of the country, about the future of the American work force, about communities that we are putting together, what do you think this data suggests?

And then one last question, and I apologize --- just curious -- the last one is: have you been able to track data about bank branch closings between the surveys that you have done and the sort of here and now. I'm asking that in part because there is a proposal on the table to review the Community Reinvestment Act which from a personal standpoint gives me great trouble. And I'm curious about the degree to which there is some documentation of branches that have closed over the past year between surveys. So thank you.

MS. CHU: Let me try to address that, at least a couple of your questions.

MEMBER HENDERSON: Yes, sure.

MS. CHU: For the number of people you asked in these different categories, we can certainly give an estimate sort of broadly. The smaller the group, the less precise that estimate is going to be, but we can certainly give size somewhat, in general, the estimates of the population sizes other than just shares.

Implications of the data actually we are going to talk about some implications that we've drawn. Certainly, they're not the only implications that can be drawn from the data, but they're the implications that we've drawn that are included in the report. We will cover that actually in the next panel.

MEMBER HENDERSON: Okay, fantastic.

MS. CHU: And are we able to track branch closings? We actually, so the FDIC does have a data set. It's the summary of deposit data which has, which comes out every year and that has bank branches and bank branch locations on it. And that's certainly a data set that can be used to look at bank branch locations over time.

MEMBER HENDERSON: Fantastic. Thank you so much. And again, tremendous work you guys should be very proud of what you've done.

MR. MILLER: We've been talking in terms of households, but we have the overall numbers of the number of people who live in the households. Do we know that off the top of our head? Sorry.

(Laughter.)

MS. CHU: Andrea.

MEMBER LEVERE: So first I want to say that this work has really changed the national conversation around this issue. And I know we have implications conversation, so I'll save some of the ways that we see the implications every day and just focus on the data first. But it really has changed people's conversations and it changes who even knows this is an issue and how they change their practices across all the sectors.

You probably know that my applied research team is already sitting there figuring out how all of this goes into the 2019 Prosperity Now Scorecard. And just to echo Bob's point, this issue around disaggregation is absolutely essential. And so we've been able to integrate all of your data and disaggregate it by race and the new data we all have on disability and incredible data we have on credit that's come from the New York Fed that we've been able to integrate looking across all of this work. And when we get to the implications, the role of this data and us being able to create these profiles by cities as small as a thousand has just been quite profound and every mayor looking at this work and other things about the data. We can talk about that next.

I want to just answer just a couple of questions going to my friend Michael. In the issue, I think, and I'm going to channel Bill Bynum and I can't do that very effectively, of hope, but it's all about the banking deserts. And if we look at what's happened to Mississippi, and a major regional bank shutting all their branches in all these rural communities, and I won't mention the name of the bank, but what they did is they gave Bill for dollar these branches, and then Bill opened credit unions in each of these areas. People were driving 50 miles just to cash a check because there's no ATM machines anywhere.

And as we know, and I'm sure this is

connected, there's a whole group of CDFIs that Jamie knows that are working on this issue of persistent poverty, not just in the rural South, but in the colonus Native American communities and in Appalachia where this is all key. So I think these communities we all work together. CDFIs are absolutely critical in this, and I think we view playing an increasing important role.

When we get to these issues around race, and I think you know what I'm going to say, this issue around credit is all tied to wealth, right? We can't stop looking at income because income is not comparable when you look by race because wealth is so profoundly different that that is what is driving, not all -- there's never one factor -- but that is the factor that's driving all these issues around credit. And as you know in the scorecard we split everybody by who has subprime and who has prime credit and looking at these together. So those were kind of the big topics for us to think about.

I do have two data questions that I

wanted to ask. So going to page 12 where you look at unbanked households that are not at all likely to open an account in the next 12 months, this is a new data point for me and really fascinating. And so I wonder with the 58.7 percent, if you disaggregated that by geography and race, and that may be unfair to ask the team here, but to me, back to what Michael was saying before we look at that, how is that -- rather than you know, I've always been so dissatisfied by I don't have enough money to open an account and I'm totally convinced that there's reasons behind that, behind besides just not having enough money. It goes back to the issues of trust and who feels comfortable and where there's a bank branch?

So I'm just curious, any --

MS. CHU: Not at all likely to open an account. Appendix Table A15.

(Laughter.)

MEMBER LEVERE: What your revenge is to me.

(Laughter.)

MS. CHU: Appendix Table A15 breaks that out by all the household demographic factors and economic factors.

MEMBER LEVERE: I should just look at that excellent table.

MS. CHU: You could look at that. I don't believe we broke it out by geography, correct? Not in an existing appendix table.

MS. FRITZDIXON: The Census region is in the demographics.

MS. CHU: Census region. But not to fear, we have our excellent data tool that you can use on economicinclusion.com.

MEMBER LEVERE: The other data point that I'm curious about is when you said that the unbanked population, only 50 percent of it is using alternative financial service providers. What are the other 50 percent doing? Is it all just a cash economy? Do we know?

MS. CHU: So we don't actually know. So one possibility is certainly cash is one option, but it's also possible that there are just new methods. The landscape, payments landscape is changing so quickly that it's possible that people are using mechanisms that we're not quite measuring. So that's another possibility for sort of seeing that transaction fold because exactly what are they doing.

MEMBER LEVERE: Those are millions of people, right?

MS. CHU: They don't have a bank account.

MEMBER LEVERE: Thank you. And keep going.

MS. CHU: Pat.

MEMBER MCCOY: I want to first thank you and the team. Your research here and the fact that it has gone on back so many years is path breaking. It's so important and I applaud you.

I also wanted to echo the importance of the FDIC's commitment to putting the data out there so the public can use it. I'm fascinated by your new tools and the aggregation going back five years. But in addition, I just wanted to say the

FDIC's other data sets, I'm on the website every week. It's a treasure trove. My students are using it. It's just incredible. I'm not on the other regulators' websites nearly as often.

(Laughter.)

CHAIRMAN McWILLIAMS: Be careful. There are some of them in the room.

(Laughter.)

MEMBER MCCOY: I had three observations. I'll try to keep this brief. On the reasons why people might be unbanked, I know in the past we've had discussion of circumstances in which some people apply for bank accounts are turned down. And you have one question that may capture that imperfectly which is is your reason, ID, credit, or former bank account problems, but that doesn't perfectly map into have you been turned down, if you've applied for a bank account and been turned down. That might be interesting to pinpoint.

The second thing is, especially in New England, I'm quite mindful that there are many geographic areas with really bad cell service and so the mobile penetration there is highly problematic. And I also grew up in Kansas and I'm sure there are places out there that have the same difficulty. So it would be interesting to have somebody map cell coverage and mobile penetration.

And then the last thing as a banking law professor, when I look at a map of states, and see such disparate outcomes, one of the things I wonder is what is the relationship between a particular state's banking law environment and the distribution of services. Is there a model state law environment to which we should aspire to help people become more banked?

That research is a little tricky to conduct because you have to tease out the effect of federal preemption, but I've certainly in other contexts worked on those types of studies and I think they can be eye opening. Thank you.

MEMBER MCDONALD: I would like to ditto everyone else's comments as far as the work that your committee has been doing for a number of years.

As I look around, I'm probably one of the most senior members of the committee and so it has taken me back to our original task and what we wanted to accomplish. The data we have here is very good, strong data and I would like to see the years also added to the credit side and whether or not we're improving in the area of extending credit. That was one of the major issues because when we talked about in the past about payday lending, etcetera, I think it would be very, very important to see whether or not we're making a dent in one of the most critical issues.

The second piece that brings me back to our initial intent was the fact that FDIC has done a tremendous amount of work in this area all the way from looking at policy on compliance side, policy on CRA, as well as the outreach work. I know a lot of the individuals with FDIC, they are more involved in outreach today than I've seen ever. And they continue to be involved in outreach. How do we measure that? How do we look at that to say that has been a success and whether or not we need to put more resources in those areas.

Someone talked about perhaps looking at and fine tuning some areas as to how we could make more progress in the areas that we're looking to change, and I think if we look back at what has been done with the FDIC outreach, it has been tremendous.

The third piece I want to talk about is that at the beginning of this task force we talked about whether or not we needed to refine or look at the whole CRA issue and how do we measure it. Thinking in terms of closing branches, how is that affecting a lot of the individuals we're talking about? A lot of the branches are being closed in low-income neighborhoods, right? And what effect do we have on that? So what can FDIC do to sort of reverse that trend? And of course, I have some suggestions that I won't put on the table today, but if you begin looking at what you want to influence, you increase the encouragement by changing some of the rules in CRA. If, for example, more credit can be given for these branches that are unprofitable, let's face it, it's getting down to dollars and cents for a lot of these institutions, including mine, which is an African-American owned institution, let's begin looking at what type of credit an institution is given to keep these branches open. I think there's a lot of work -- there's some work that could be done in that area that perhaps changed the trajectory of having some of these branches either stay open or closed. That could be almost an immediate correction that could happen.

Again, the work that we're doing is phenomenal. And a lot of the members have said already, some of the thoughts that I had on how do we begin to use this information, and how do we begin to focus? And what are the objectives going forward for us?

So we have all of this data now. So if we could begin putting this data together to match some objectives as to what it is we want to change because obviously the work that the FDIC has done in this area has changed a lot of the numbers. We see it in the numbers in your report. We see it continuously each year. So if we could begin focusing in on some specific areas.

The African-American community and the Hispanic community suffers the most. What is it that we can do? What is it that we could point to this data that we need in order to change that dynamic? It would be very, very helpful.

MEMBER SWAGEL: Great. Thank you. I have two suggestions and maybe in trying to answer some of the questions, rather than asking questions and so many questions have been asked. And then one comment which you'll see is slightly critical.

So working backwards, I was looking at Slide 27 first, and I think Pat and I were thinking about the same thing which is the state one and what struck me -- if we can flip to 27, was Minnesota does especially well, and is there something about that state and other states. And so you might in your analysis use the state as a level of observation and then can you identify things in the state?

The Lutheran Church over the years has had a focus on financial literacy and education in their -- according to the men's club, that's been a big focus. And is there something there? Anyway, I don't know. I'm just having a little bit of a Minnesota --

(Laughter.)

-- but obviously Minnesota has a strong economy and high incomes, high education levels, but some of the comments, after controlling for all of that, what else is left over? So I wonder if looking at the state level might help you.

And I think you probably identify what others have identified, Michael identified and Wade Henderson identified, as rural African-Americans, even after you control for all these things are still being left out. It might just help you focus -- sharpen that point.

And then on Slide 13, it's sort of the same thing, just a different way of cutting it is the idea was that -- it was interesting that some people -- I'm sorry, you might look at people who have never banked throughout their lifetime. People cycle in and out of the banking system, there's probably some people who just are never banked. If everyone is banked, imagine everyone is banked, and there's some people whose incomes are just very volatile -- everyone here is pay grade, right? I mean FDIC and the banks are not going to solve the problem of inequities in our society and income volatility. But if you could way okay, even after taking this into account, there are some people who never get into the banking system. And as Michael and Wade and others have said, they have particular profiles. Well, that would be really interesting and then you can focus on that.

So anyway, again, you obviously have the tools, you have the data. It's just another way of looking at it. And obviously, I agree with them. I bet you're going to end up with the profiles that the two of them suggested. That will suggest policy measures, et cetera.

So a very slight critical comment. On

page 6, it just struck me the word "underbanked" at the top, I know what you mean, but there's a sense in which these are people who are using alternatives to banks. It's not exactly that they're underbanked. They're using alternatives to banks. So it's just a -- I don't want to get hung up on the wording, but the words might be not exactly what you mean.

And of course, the challenge to banks, their customers are going to other things and why are they doing that? Why are they letting them escape? That's just a comment.

MS. CHU: Thank you.

MEMBER WEICHER: I agree with the 14 previous speakers.

(Laughter.)

John isn't here. On the quality of the research and I think it's extremely interesting. And I particularly have been impressed with the decline in the number of unbanked -- the proportion of unbanked households survey to survey. It's worth remembering that this is going on during the weakest economic recovery we've had since the 1930s, and yet banks have been reaching out to people who certainly in the earlier years were probably having a harder time using credit, having enough in a way of a record to be able to use credit. But it's come down very sharply. And I think that's quite impressive.

And I've also been looking at the people who say they don't trust banks, and I think at least in the slides the decline in the unbanked rate tends to be overlooked as you look at other questions or answers such as the unbanked households which are not at all likely to open an account in the next 12 months, that's going up a bit as the proportion of the smaller number of households who are unbanked to begin with. And one has to do a couple of multiplications in your head or with your calculator to be sure you understand what's been happening in the aggregate.

Related to this is the question about the primary reason for not being unbanked, and I'm looking particularly at not trusting banks. And

12 percent who are unbanked primarily because they don't trust a bank, that's 12 percent of the 6.5 percent who are unbanked which is less than 1 percent of the total population of the United States, again, coming after an extremely weak economic period that we would not like to go through again during our lifetimes.

And indeed, also taking the proportion who say it is a reason that they don't trust the bank, that gives you about a little over one percent of the households who are unbanked because to some extent they don't trust a bank. And the total who don't trust a bank and who are unbanked works out to less than 2 percent of the population. It would be very interesting to know what that 2 percent looks like. Who are the people who don't trust the bank and are not banked and that ties into questions that a number of other people have been raising.

The thought which occurred to me is that foreign born households might be especially likely from some areas not to be -- not to trust banks because it seems to me there are countries in this world where it is prudent not to trust the banks, including the Central Bank, and the limited experience I have with immigrants I grew up with and who I've been related to, that attitude stuck through the first couple of decades of being here in the United States. And I didn't see a lot of evidence that foreign born showed up in a significant way in the slides. I haven't looked at the appendix tables, of course, and I'm going to look at them.

And then let me go back to where I started, and I think this is an extremely impressive piece of work and extremely interesting results.

MEMBER ANNIBALE: I have one point on that point. I'm on an advisory for the Government of Mexico on financial inclusion education. When we looked at the survey of Mexicans in America on the immigrant particular group, those surveyed at the consulates, we're finding 70 to 80 percent never had a bank account in Mexico. So as the largest group of immigrants we're probably speaking about, and we have programs with the Mexican Government here to try to get people to show that they could be opening an bank account and be documented. But if nearly 80 percent of the population of the largest immigrant community today are coming from a country without a banking history themselves, they suddenly come into the most complicated, as they would perceive it, financial center. And they have nothing to fall back on. And of course, language is a huge barrier, too. So amongst that group, I think we really have to go back to what you were saying, John. Think about there's perception and there's also experience. And the largest groups arriving today in the U.S. in that sense don't really have any bank experience, let alone a bad one.

MEMBER BOSTON: Also John brought something to my mind. Again, I'm going back to the issue of no mainstream credit, especially for people of color at the higher income levels. And maybe, I don't know if we asked this question, are they dealing with the aftermath of maybe losing their home during the Great Recession on the mortgage crisis? Because many households have not come back from that and for many reasons, they are not engaged in trying to get a mortgage, maybe getting a subprime car loan if they can get that. And some just don't know if that was part of that issue, but that might help again to begin a look a little deeper into that, because especially among African-Americans home ownership is important and if they're not being represented here, there might be an underlying reason why we may want to find out.

MR. MILLER: So Chairman McWilliams, we're about 20 minutes over the time for the first panel. We've got another hour devoted to this. We're scheduled to take a break and come back if that's all right with you.

CHAIRMAN McWILLIAMS: Sure. Let's take a break, and then let's continue. This has been a fascinating discussion, and I truly appreciate everybody expressing their views around the table, and I have some views of my own that I would like to share myself.

MR. MILLER: 10:35, why don't we say? Thank you.

(Whereupon, the above-entitled matter went off the record at 10:23 a.m. and resumed at 10:45 a.m.)

CHAIRMAN MCWILLIAMS: I just told the staff to prepare a Thanksgiving dinner, because at the rate at which we're going, we'll have to discuss until Thanksgiving.

(Laughter.)

Jonathan, please proceed.

MR. MILLER: Alright. So, I think that the same panelists, but now we're going to talk about the implications as we see them. And again, I think we'll have a pretty good discussion. So, Karyen?

MS. CHU: Thank you. Sorry, let me -- So, the 2017 survey results suggest a number of opportunities to continue to increase the use of mainstream banking services by unbanked and underbanked households, to sustain the improvements that we've seen so far, and to further reduce the unbanked and underbanked rates, going forward.

There are five implications that we report -- that we describe in our report. The first focuses on expanding access to mainstream, small dollar credit for banked households. The second is about helping households build credit histories. The third focuses on using mobile banking to deepen banking relationships with underbanked households. The fourth implication relates to the continued importance of bank branches for banked households, and opportunities to reach unbanked customers through bank branches. And the fifth opportunity has to do with differential trends and continued high unbanked rates for some population segments.

So, the first survey implication is that new underwriting technologies could help expand access to small dollar credit -- mainstream small dollar credit -- for banked customers, including consumers with little or no credit history. So, we see from the results that 13 percent of households have unmet demand for mainstream small dollar credit.

As a reminder, these are households that in the past 12 months applied for a credit card, or a personal loan, or a line of credit from a bank, and were either denied or didn't get the full amount that they applied for. Or they felt discouraged about applying and didn't apply. Or they used a credit AFS in the last 12 months.

So, among these households that have unmet demand for mainstream small dollar credit, almost nine out of ten are banked. And most have an active banking relationship. As you can see, 87 percent of them directly deposit their incomes into their bank accounts. Ninety-five percent of them directly pay bills from their bank accounts, using methods such as electronic bill pay, their bank debit card, or personal checks.

Yet, in spite of their active banking relationship, only one third of these banked households actually applied for a credit card, personal loan, or a line of credit from a bank.

So, for banked households, these banked households with unmet demand for mainstream small dollar credit, account balances and transactions may provide information for underwriting small dollar loans.

We see that, as we've seen, almost all of them pay their bills and receive income using their bank accounts. And in fact, almost all of them have been banked for 12 months or longer, which suggests that, for at least some of these households, there may be enough transactions to provide information that would be useful for underwriting small dollar loans.

In addition, six out of ten of these banked households with unmet demand for small dollar credit, for mainstream small dollar credit, are current on their bills in the past 12 months. And while this is obviously an incomplete measure of credit worthiness, it nevertheless provides some insight into the financial conditions of these households.

Moving on to our second implication,

households with little or no credit history may not seek credit until a need arises. Helping these households build a credit history may particularly benefit Black households, Hispanic households, and households headed by a working age individual with a disability.

Our survey results show that one in five households likely have little or no mainstream credit, and therefore, consequently, little or no credit history. About three quarters of these households are banked, and they may not be aware of the importance of credit, and may not seek credit until a need arises.

In the previous panel, we showed that some population segments are significantly less likely to have mainstream credit, and consequently less likely to have a credit history. And we also showed that, even after accounting for household income, you'll recall, Black and Hispanic households remain less likely to have mainstream credit. This is also true for households headed by a working age individual with a disability.

Helping banked households without a credit history build a credit history may particularly benefit these population segments which continue to have high unbanked and underbanked rates.

Our third implication focuses on mobile banking. Specifically, mobile banking holds real promise for deepening the connection between underbanked households and their banks, while increasing the safety and convenience of bill payments.

Forty-one percent of underbanked households pay some of their bills every month, or in a typical month, with cash or nonbanked money orders. Now, these same underbanked households have a high level of engagement with their banks and their bank accounts. As you see, 87 percent of them pay bills using their bank account in a typical month, and 82 percent directly deposit their income into their bank accounts.

That suggests that these underbanked households may be receptive to conducting a greater share of their basic financial transactions within the banking system.

Banks could encourage and facilitate the use of mobile bill pay and mobile person-to-person payments. For example, as eight in ten of these households have access to a smartphone, in fact, more than four in ten of these households already use mobile banking to access their accounts, but only a quarter use mobile bill pay, and even fewer use mobile person-to-person payments.

Using mobile payments instead of cash and nonbanked money orders obviously increases convenience and safety, and potentially deepens the connection between the households and their bank.

It is possible that these households are using cash and nonbanked money orders because of payee requirements. In that case, efforts to encourage and make it easier for a range of payees, such as individual landlords to accept mobile payments could certainly help. And also, efforts to increase customer and community awareness about innovations that have increased the speed and safety of mobile payments may help these households reduce their use of cash and nonbanked money orders to pay bills each month.

Our fourth implication, physical access to branches remains important for banked households. Opportunities may also exist for branch staff to inform unbanked households about products and services that can help meet their financial needs.

So, let's focus first on banked households. Earlier we saw that 74 percent, that first graph, of banked households used a bank teller to access their account in the past 12 months. And we see from the bottom bar that more than one third of banked households visited a bank branch ten or more times. We also saw results that show that bank teller and bank branch use was prevalent, even for households that primarily use mobile banking to access their accounts.

In addition, there are some population

segments, as mentioned in the previous presentation, that disproportionately use bank tellers as their primary, and often only, method of bank account access. For example, one in five -- I'm sorry, 38 percent -- of banked households in rural areas primarily use bank tellers to access their accounts. One in five of them use only bank tellers to access their accounts. And almost half of rural banked households visited a bank branch ten or more times in the past twelve months.

So, bank branches clearly remain an important access point for many different segments of banked households. Our survey results also show that some unbanked households visited bank branches in the past 12 months. Specifically, 15 percent of unbanked households visited a bank branch at least once in the past 12 months, and five percent visited ten or more times.

Unbanked households that visited a branch are much more likely to have been previously banked. Seventy percent of them were previously banked, and two in five of them say that they are very likely or somewhat likely to open a bank account in the next 12 months.

These findings suggest that the unbanked households that visit branches find value in the banking system, and opportunities may exist for branch staff to inform these unbanked households about products and services that may meet their needs, such as low-cost checking accounts or safe accounts.

And finally, our fifth implication, unbanked rates for some population segments have declined, as you saw, as economic conditions improved, but they remain high.

Unbanked rates for other population segments stayed fairly constant through the economic expansion. Adopting targeted strategies may help sustain those increases in bank account ownership in future economic downturns and increase access for more population segments.

So, earlier, we saw that unbanked rates for Black and Hispanic households declined quite a bit between the high in 2011 and 2017. Improved economic conditions, particularly improvements in household income, in education and employment, explain most of the improvement in the unbanked rate for Black households between 2013 and 2017. These improvements also play a role in the declining unbanked rate for Hispanic households.

To reduce the likelihood that future economic downturns reverse some or all of these declines in unbanked rates for these populations, industry participants may consider ways to cushion the impact of adverse financial shocks on a household's ability or desire to maintain a bank account, such as, potentially, forbearance of fees, you know, having accounts that allow avoidance of fees through activities other than, say, direct deposit of income, for example.

Unbanked rates for some other population segments have stayed fairly constant through the economic expansion. For example, households headed by a working age individual with a disability, you see here that the unbanked rates have barely budged through the economic expansion.

And of note also is that, even with the declines -- going back to the Black, Hispanic -- even with declines in the unbanked rates, bank account ownership among Black and Hispanic households remain quite high. Also, an overwhelming majority of households -- of unbanked households, in all three groups, Black, Hispanic, headed by a working age individual with a disability, say that they are not very likely or not at all likely to open up bank accounts in the next twelve months.

More than half of Black households, unbanked households, and almost two thirds of Hispanic households, and more than two thirds of households headed by a working age individual with a disability say this.

MEMBER LEVERE: Do you have data on their use of mobile, for the disability population?

MS. CHU: We do.

MEMBER LEVERE: I just wondered how that tracks to the numbers to show --

MS. CHU: So, these are the unbanked.

So, we have use on mobile banking.

MEMBER LEVERE: Next slide. No, the next slide that you showed.

MS. CHU: So, this is just the unbanked.

MEMBER LEVERE: Okay.

MS. CHU: So, these findings suggest a continued need for targeted strategies that address barriers to bank account ownership for each of these different populations with high unbanked rates. Thank you.

DIRECTOR GRUENBERG: Okay.

MS. CHU: Oh, and I wanted to comment --

(Laughter.)

DIRECTOR GRUENBERG: So, let me just -- one housekeeping matter before we get into the discussion. At the end of this panel, we're going to take a photograph of the group before you run off to lunch.

MS. CHU: Right. So, questions? Ted?

MEMBER BECK: A couple of things. Anywhere in your data for the people with unmet credit needs, do you have statistics -- have they at any point been turned down for credit?

MS. LLORO: Yeah, so that's actually one of the ways they get put into that group, is if they applied for and were denied credit.

MEMBER BECK: And what component of the group has been turned down?

MS. LLORO: That I don't remember off the top of my head. It should be in the --

MS. CHU: Of which group? I'm sorry.

MEMBER BECK: With the unmet banking need.

MS. CHU: Oh, the unmet small dollar demand?

MEMBER BECK: Yeah.

MS. CHU: We haven't -- We just don't have it right on us.

MR. WEINSTEIN: Overall, 2.8 percent of households were denied a credit card or a bank personal loan.

MEMBER BECK: Of the 13 or approximately --

MR. WEINSTEIN: This is of the entire population. So, some of the 13 percent with unmet demand is contributed from the 2.8 percent.

MEMBER BECK: Okay, so there is a -- you know, once you're turned down, going back is a little less attractive.

A second question, if I could. I'm always amazed how my banks are perfectly willing to tell me what my credit score is, and I'm just wondering if there's -- and here it comes -- an educational opportunity here, so that if people are paying their bills and the credit score is such an important part of people's lives these days, is there an opportunity to say, for those people with unmet credit needs, let them know what their credit score is, and if it's poor, what are five things you can do to improve it? Like paying your bills on time and things like that, just as a, if you ever need this, here's an opportunity for my bank to show me how I will be eligible for credit or better priced credit, because that data is -- if you don't know what your credit score is, you're not -- you know, applying for a credit card is a little intimidating. So, is there a way to link the two?

MS. CHU: So, we don't -- you know, we don't actually ask people their credit scores in the --

MEMBER BECK: Or if they know their credit score?

MS. CHU: We have not asked if they know their credit score. Certainly, a question worth considering.

MEMBER BECK: Okay.

MEMBER BOSTON: I wanted to follow up on some of the things that Ted was saying. I think particularly about the fact that some of the things we're talking about, even though we know unbanked and many Americans are paying their bills on time and paying their rent on time, these things aren't even taken into your credit score. I mean, it's been an issue for a long time, of debate, again, people being put into subprime category when they really are not subprime.

And if some way we can tie in -- I always thought the benefit of having a safe account that can also demonstrate that you are paying your bills on time, if that could be reported to some type of credit bureau, that that could help many Americans, because it would help them to begin to be recognized in our credit scoring system -- which I think is flawed, but that's a different conversation.

But, I just wanted to bring that out. It might be something that the FDIC can begin a conversation about in some way.

PARTICIPANT: So just -- Oh, I'm sorry.

MEMBER BOSTON: Yeah. The other thing I was concerned about, or interested in -- you mentioned that 50 percent of the people you talked to had no intention of having a bank account. Did I say that right?

MS. CHU: That was greater than 50 percent of Black unbanked households.

MEMBER BOSTON: Right. And to go back

to a conversation that was happening during the break, have we looked at the impact of Walmart, and PayPal, and Amazon, and other people who are providing these type of services so people can pay their bills without getting into the banking system, and yet they feel, well, why do I need a bank? I'm just throwing this out as a question, as something maybe we'll come back to, because it's, you know, they're doing something, primarily to pay their bills, if nothing else, or to transact different transactions. And it seems like they're not in our system.

And then the last thing I want to say, I think we have a great website. I was interested in learning later on how you're marketing it, and I can find out later.

MEMBER HENDERSON: Thank you.

MR. MILLER: So, I just want to make a point, Kevin, on the issue of paying bills on time and rent on time. So, there is increasing through the use of technology, increasing interest, and in fact some products that are now using what they call cash flow underwriting. And I think that's why in our data we asked, you know, have you been paying bills, getting direct deposits, paying bills from your account? Have you had an account for more than 12 months?

Because they can do underwriting and score you in that sense, based on the activity in your account. So, I think that is starting to get incorporated more, and I think commercial companies are starting to use that.

MEMBER BOSTON: I think my -- I have two points. One, I think -- I'm interested in what the banks are doing. Are we going to help people build their credit the same way if we have this opportunity and this information at hand?

And then the other thing I think we should recognize that -- I've been following the online lending industry a lot. And as far as I can see, they are just as discriminatory online, using the same type of credit scoring models, for the most part, that keep many people from getting credit, as if you were going to the traditional route.

So, there's only a certain number of Americans who really have access to online credit. And that's not your issue, but I think it's something that, as we move down this, looking at the impact of online lending and the opportunities that it presents, we should also recognize that they're not regulated for the most part, and they can discriminate against who they want. And that's what they're doing, so -- I didn't mean to get off point there.

MS. CHU: Thank you. Wade and then Andrea.

MEMBER HENDERSON: Thank you. Again, Karyen, your team has done a great job. I appreciate the way you've broken down consideration of the implications of the data, so thank you for that.

There's an overarching, though, issue, that for me is relevant to how the banking industry and policy makers address the data that you've presented, with the continuing racial disparity, and a disparity based on poverty and class --

there's a class disparity, education or lack thereof, income contributes to a decision whether to participate in the industry.

But the overarching question for me is why should Americans care? Why should the average American concern him or herself with the data of the unbanked? What is the issue? Why should we be concerned about states in the South having the highest percentage of the unbanked? And for the people involved, what are the implications of this?

The reason I frame it that way is because I tend to think that policy makers in this area are largely ignorant of the implications of this data, long-term, to the health of the economy, the national interests, you know, the national security interests of the country. There are ways of framing this data that heighten the urgency of encouraging people to participate in the banking system.

The data is not self-evident -- it is not self-evident that one reaches conclusions based on the data we've presented. So, for me, the question is, how do you develop a narrative which helps the policy makers at the federal and state level, and helps the individuals who perhaps are outside of the existing banking system reconsider their position and encourage them to participate? What is the incentive for doing so? Now, I tend to think that, given the changing demographics of the workforce of the future, where it is likely that more African American and Latinos will be taken into the workforce of the future, I'm looking at data around education, where that community is likely to be going forward. I'm looking at data about wealth acquisition.

And then, I'm looking at this data, and I'm concluding that we are growing a population that is less well-suited for the jobs of tomorrow and are outside of the existing mainstream of the economic system, and that that is a growing problem for the country as a whole.

But I need to articulate a rationale that would encourage policy makers to think of it. And what would you do? What do you see as the implications of this data for those questions, which may go beyond your role as an economist specifically? But looking at the broader implications of this issue, politically and for the country as a whole, that's what I was really trying to get to.

MR. MILLER: So, that's really the job of the people on that side of the table.

(Laughter.)

MEMBER HENDERSON: Come on, don't throw that to us. I mean, come on, you've got to give us leave, Jonathan. It's unfair to simply throw this data out and say, okay guys, what do you think it means? I'd like some guidance because I do think -- No, no, I'm serious here. I really believe that it does have negative implications for the future of the country as a whole, and that more policy makers should be concerned about what these numbers suggest than are.

But I don't think we are motivated to look at the issue with the kind of depth required, because I don't think people really understand why this is an issue to begin with. So, I'd welcome responses from anyone who can address this.

MEMBER BARR: Let me just say a small thing about that. I think you're exactly right, and I want to bring us back to Chair McWilliams' comments at the outset. It has -- being part of the system has important implications, obviously, mechanically, for people's ability to get their work done, but it also does have this, I think broader implication -- and I completely agree with your way of characterizing it -- this sense of belonging to a broader community, that is important for the country to address.

So, we have a mechanical problem, but we also have a cultural and a spiritual problem that this is unveiling.

PARTICIPANT: And I think Marty wanted to go, so I'll go after Marty.

DIRECTOR GRUENBERG: I was just going to say -- it's tough to put Karyen on the spot here, in this manner. In fairness, it's just a little bit above her paygrade. I would say implicit in undertaking the survey by the agency, by the FDIC, was a belief that this was central to our mission, that the FDIC is about public confidence in the financial system, about access to the banking system, and giving people a sense of security to participate, on the implicit assumption that participation has a value in and of itself, that being part of the mainstream, being part of the mainstream economy is in the general public interest, which is our basic underlying mission.

So, I think that's implicit in the work. And I think, if I may say, this survey in some sense has framed and laid an information base. Somebody said it helped define an issue and explain its existence in a way that was not appreciated before, and in many ways, that's the starting point. You've got to know an issue exists and have some credible handle on the scope before you can even think about addressing it.

So, I think part of our job here, and the work that these folks have done so well has been to, in a sense, identify an issue, frame its scope in a credible way. And it is a substantial issue with, I think, real consequences for the people who lack access, and consequences for the country, in frames of public policy debate.

And you, know, we can have a pretty robust discussion around this table about how best to address that, but I think the value brought here is these folks have laid the numbers on the line --

MEMBER HENDERSON: Oh, I love the data.

DIRECTOR GRUENBERG: -- and told us the dimensions of the issue, and then we can talk about how to address it. But these folks have done their job, I think, pretty well.

MEMBER MCDONALD: I would like to add to the conversation, if you may, the data can be and should be a developing tool for policy. As Wade mentioned, even on the banks that are -- bank branches that are closing down in neighborhoods, in looking at the map, we are in some of these communities where the map is showing the unbanked numbers et cetera. And if we were to just take that data and break it down and see what has happened to those communities economically, I will tell you what we see because we're there.

We see, first of all, when the branches are being closed, the community continues to deteriorate. The communities deteriorate on every economic downturn. So, when the community continues to deteriorate, the value of homeownership takes a negative hit. So, which means individuals who own properties in these neighborhoods are not getting any appreciation and equity value.

As a matter of fact, they're getting a depreciation in their equity, which then further brings down the minority community, as far as their ability to borrow money and to improve their lifestyle, whether it's for them, or their kids, or their grandkids, because individuals who have purchased a home in these communities -- and your maps, I think, can point that out, to create the economic value.

We have seen in a lot of these

neighborhoods, our corporate office is in the neighborhood that was hit by an economic downturn and Katrina, and we were fortunate -- and it's not a good thing, and I'm not proud to say this, but we were able to get our taxes reduced because the land value and the property value has declined so significantly.

So, when people are now looking to acquire homeownership, and there's no incentive, and there's every indication that the community is in decline, what happens? Which I think the information that you have in your survey, if we began digging down deeper, and began putting it around the economic items and issues, we're going to come up with the information that we need for policy makers to begin reinvesting, to bring those communities back economically, and for the financial institutions to either keep their branches open, or to reopen them to rebuild the community.

So, I think what we have here is a very, very good start of developing information for policy issues to begin to take place.

MS. CHU: Thank you, Alden. Andrea's been trying to --

MEMBER LEVERE: I want to just make -- go back to your implications and connect it, and then I'll take a little stab at answering Wade's minor question.

So, I wanted to pull out implication number three and four, and remind you how your own research is making a very important case of how the financial services industry is being transformed by technology.

So, go back to number 3 and 4 of implications. That's page 3.

MS. CHU: Oh, you wanted to go back to the original --

MEMBER LEVERE: Yeah, page 3, just on the overall --

MS. CHU: I see, okay.

MEMBER LEVERE: So, one of things that I remember being incredibly struck by your mobile banking survey was people identifying all the advantages of mobile banking, but then saying, what did they miss, if you remember this. That they still wanted contact with an individual or a person, to help them make some of their financial decisions. And we talked about that in the context of the whole emergence of the financial coaching field and how that integrates.

So, when we look at number 4, right, we think about the bank branches being the main, but not sole, place where that contact happens. And I have to say the most surprising data point was the rural data point, because in many ways it contradicts some of the other findings we see, that because of these banking deserts, folks in rural communities don't have access to the banks that they used to.

So, to me, it's looking at how we connect. The very important -- I don't know if there's the next mobile banking survey coming next, or -- but to me, those two points have very powerful connections, and understanding the implications for how we think about bank branches, which is an extraordinarily heated conversation today, with the CRA modernization that we're all in the midst of. But also how we think about linking mobile banking services, as we've talked multiple times around the table is, what can banks do to strengthen mobile banking and helping people make these choices.

So, just to give you laurels for two pieces of research you do, that have had, I think, very powerful insights for the broader field.

And that just goes to my point, which is I think that over the last several years, as the whole field of financial inclusion, financial capability, and savings has grown, and brought in folks from every sector, they increasingly understand that this issue is often at the heart of their ability to achieve their own outcomes, whether it's folks in the healthcare industry talking about the social determinants of health, whether it's our affordable housing developers who understand that if they don't deal with the basic financial insecurity of their residents, they're not going to achieve their own goals.

And I think the third greatest change that I'm seeing is employers, at the workplace, looking at this. And our ability to share your data with employers -- Next week I'm going to a meeting of 500 people at Prudential. All they want to see is some of this data for the communities they're serving, to think about what are the implications of this for all the employers whose employees are coming to them with huge issues, with income volatility and need for short-term credit.

So, I do think our allies are growing, but your point about the extraordinary importance of bringing them into the conversation to help find solutions, I think is key.

MEMBER HENDERSON: Well, I think -- Thank you, Andrea. And again, I think the data is incredibly powerful and very well documented, in a way that gives us assurance that this is really something we can rely on in developing our analyses.

I think that -- and perhaps, again, this goes beyond what your working group can do, and perhaps, Jonathan, as you pointed out, it is for us to develop. But here's a part of the specificity that I'm looking for.

I see many of the states that have been identified as those with the largest population of the unbanked at the bottom of the economic rung. I have to assume that there is some correlation between the population of the unbanked, the racial dynamic and class dynamic of that group, and their overall economic circumstance.

I see policies being adopted now that are making their circumstance worse, not better. I am deeply concerned about CRA proposals, which tend to obscure the import of closing bank branches in some of these communities and what the implications are.

I think Alton has talked about that and has good examples of how banks that seek to stay open, to serve communities where teller interaction is so critical to moving things forward, are being denied that benefit, in favor of less directly related services, and that thus justify closing bank branches, which might otherwise stay in place.

I'm very concerned about the growth of payday lending and instances where people are denied access to short-term credit that some of the banks could provide if they were more sensitive to the broader set of dynamics.

Pulling all of this together, aggregating this, in a way that allows those of us who are nongovernmental organizations to speak to these issues, to prod banks and others to provide services requires an articulation of the risks that are not readily apparent from the data alone.

So, perhaps it is for those of us who are in that field to really reach those conclusions, but what I'm looking for is a sort of a narrative that says, look guys, it is not in the country's interest to allow this population to remain in its current size, or to allow forces that are not shaped by policy decisions to affect how it is reduced, and that if we are really interested in affecting the national interest of the country that we are all committed to serving, then we have an obligation to engage in intervention, and the interventions are drawn from some of the data that you presented.

MS. CHU: Pat?

MEMBER MCCOY: Thank you. I had a couple of comments. I seem to recall from the FDIC separate studies on mobile banking, which talk to this study, that the FDIC may have looked at the potential of mobile to entice people who are unbanked to open a bank account. And that topic and potential is actually, I don't think at least, mentioned in this abridged discussion, but that might be worth flagging.

The other thing is, in our discussion today, we've been noting several institutions that affect access to the banking system. So, the credit scoring system obviously is one. But let me just highlight two others.

I think this question that Kelvin raised about alternative payment systems, the newer ones, the FinTechs and such, outside of traditional banks, is really worth looking at because bank payment systems, for somebody who needs to get money to somebody very quickly, basically an equivalent of wiring it, have been behind what FinTech, outside of commercial banking, is doing.

And my suspicion is that people use the alternative services because they work better. They're faster, they're cheaper. Commercial banks are slowly getting into this space, but they've been slow. And so, we have to understand, if the alternative outside of the banking system really is more attractive, we have to grapple with that.

The other thing I'd just like to also underscore is, in the banking deserts, the need for a physical banking presence, whether we call it a bank branch -- certainly ATMs are extremely important, or if there's something that is short of a formal bank branch that nevertheless allows people to talk with a bank representative in person

-- is so important.

Our system currently provides incentives for all of that through CRA, and it's really, really important to preserve that. Not all of us live in big cities on the coast. We have to remember all those other people.

MS. CHU: Great. Thank you.

MEMBER SWAGEL: I was just going to talk a little bit about the policy implications. I thought that some of the implications are on the value of competition in financial services. And just picking up where Pat left off, I mean, the corporation could boost competitive pressure if all the board members go on TV and Venmo each other --

(Laughter.)

-- and say to the banks, hey, look, this sure works well.

(Laughter.)

The things we learn from our teenagers.

CHAIRMAN MCWILLIAMS: Marty, how much can I send you?

(Laughter.)

MEMBER SWAGEL: Exactly. So, I gather that the payment stream is sort of quasi-public, so we'd all know anyway. TMI.

(Laughter.)

But it was the value of competition. And I though, in substance here, the first point also, expanding access to mainstream small dollar credit for banked households, that also goes to the value of competition, that it's a policy implication, that, you know, having regulated depository institutions providing small dollar credit would not just benefit households directly, but put pressure on payday lenders and the like to lower their rates. So, it's sort of a double benefit. Again, it's just the value of the competition.

And then I was thinking about the implication for banks versus nonbanks. And it's always seemed to me that we want households in the banking system, in the regulated depository systems, you know, for several reasons. But, you know, one is a macro reason, that it's better regulated, that it's -- you know, sort of all the things we learned about the problems with shadow banking during the financial crisis.

There's better consumer protection, or there should be. And then some of these other things, it seems to just go in the other direction, the competition. If there's more competition outside of the banking sector, well, that's going to push people out, in some sense in the, what I think you're saying is, in the wrong direction.

Anyway, it's just another way of, maybe long-winded way, of coming back to competition, that allowing more competition in the banking sector will help bring people back in.

I'm sorry, I had one more point. Sorry. But totally unrelated then, which is on -- sparked by some of the other comments here, about ways to -- policy focuses that could help low income families. And here I'm thinking of payments, of moving to real-time payments, which I know the Fed is working on, seemingly not in real time.

(Laughter.)

So, my friend Aaron Klein at Brookings has written, I think very persuasively, about the benefit of real-time payments for low income households. And it seems like that's something where the FDIC could maybe light a fire, you know, within the Fed.

MEMBER ANNIBALE: I'll go quickly then, and follow right on that, as I always do. Clearly -- and I even take out my iPad to show people here -- in London or elsewhere, real-time payments -- and in Europe -- are real. And in other countries I know of, in Brazil, it's immediate.

Even if you put a check in one branch in the Amazon, you'll get credit the next day in Rio. I mean, this system, in a hyper-inflationary environment, learned to either crash or become efficient. And in Europe it didn't go hyper -- it's amazing, it got efficient though, even though, with all it has.

The other experience is, it's not always one or the other, I think. For mobile, in many places, we can't always recreate our past. So, as much as I opened a savings account at a local community bank, and I went to the drive-in window, and my neighbor was the teller -- I mean, that scenario may not be what we can actually cause to happen always.

And I don't know rural well enough. We're an urban, largely based, bank. I'm an urban person.

(Laughter.)

I think of other examples, where, even if I used Brazil, the postal system. Look, from a political perspective, we're not going to close the post offices in rural areas, even if it makes no sense to deliver an envelope, you know, for the same stamp as it is across the street.

Now, and I'm not even going to go as far as Wade yet, in saying, yeah, I need a Postal Savings Bank. But in places like Brazil, the post office, as a physical presence, is a location where even banks or credit unions -- in that case, a bank, or whatever -- has a window. They almost use it as an access point. It could be a point of ATMs, and ATMs that are collectively used.

And I know, because some congressman's staff in Vermont asked me to think about, like, all their rural -- the fact that branches are leaving rural Vermont as well. It just economically can't make it work. But couldn't we have, you know, again, common platforms, just as we do in SWIFT and our payment platforms. It's what we build MasterCard and Visa around, right? They're collectively owned by the banks.

When you have interoperability of something like ATMs, that could be in other places, where it's one form -- it may not be the full branch you're looking for, but again, it's getting access.

The third one, I just wanted to say quickly, there was -- I think as we look at the racial issues here and the numbers, we cannot help but to say we also have to target. And that may have implications for -- and thoughtful ones -- for those who are lawyers, who are better than I, on fair lending and other approaches.

If we look, and we look at the Whites, who are, you know, 3 percent unbanked, for example, right? And now, if we even took out those who might identify having disabilities, or foreign-born, or other impediments they feel at first entry into banking, that's probably even lower, right, than you would say for those who don't have any other category that we segregate for. It'll be below three.

And if we look at Black and others, and we look, it's five times the level. We have to have a concerted, targeted approach to certain communities, and that may be even geographically concentrated.

So, I think it might have for those on this side of the table, too, closer to those issues of fair lending and all the implications, of, well, we've always worried about the other aspect of that, of, we really do need to be targeted in how we try to create access now, because the numbers have such disparity.

So, I think we need to challenge

ourselves on a policy level too, of how do we do that.

MEMBER BOSTON: Can I just add -- to your point, one of the things that's alarming me is some of the new research that suggests -- I think it might be Andrea breaking down the number -- in about 20 years, the net worth in the African American communities, it'll be zero. And this goes back to why this study is so important to me, and to your point, to look at the trends.

And to go back to Marty's point about why this work is important to the mainstream economy. And then I want to tie back to, again, the importance of wealth building. In our economy, you need credit to go to college, to buy a car, so you can get a job, to get a business, to own a business and own a home, where people build wealth. If they don't have access to that wealth, then they will be going to a zero net worth, as a race, which I find amazing.

So, I bring that point up to suggest, I remember on a number of times, the FDIC has thought it was important enough to have certain issues, that we may embark on some type of public campaign. I'm just going to throw this out as an idea. And maybe we might want to have some type of conversation about where we can tie in this important research, Money Smart, which I think is one of the best financial education programs, this new website inclusion, and maybe even tie in CBA together.

Because, to get back to Wade's point, there is some marketing that needs to happen. And I know that, you know, there are some things the FDIC can do and certain things that we can't do, but there might be some type of public campaign to help people at least understand the importance of what you have done, because this is great work, and valuable work, that people can then, whether you're nonprofit, an educator, or just a community person, or a politician, can use, if they are aware of it.

But if we don't even know that it exists, then it's hard for us to use this great research. So, I was just going to share that, that maybe we might have a conversation to see how we can at least put this into some type of public campaign over a certain period of time, and take all these resources, because, you know, I know is there some limited resource when it comes to FDIC and marketing.

But you have so many great services that I think are connected, and if we can use them effectively in a national marketing campaign, it may help.

MS. CHU: Or a TV show.

(Laughter.)

MEMBER BOSTON: You never know.

MS. CHU: Jose?

MEMBER CISNEROS: Yeah, well, as a government person that's used some of this data to roll out programs to try and make a difference in addressing some of these issues, I still come at this with a hunger for more information. And I think all of us do.

And I think what I've heard over and over again in today's conversation, and the many times we've had these same conversations, is more, and more, and more information about what's going on on the ground. This survey and the newest update of it is fantastic, in terms of relating the impact we see on the population.

But what I guess I feel like I still have a hunger for are what are the elements that are helping produce this. One of the things we've talked about a lot today is bank branches, declining number of bank branches, bank branch deserts, things like that. One of the things I know the Federal Government has is very, very, very detailed information about where every single bank branch in this country sits, every single one. And you've had it for decades.

So, there is no reason why we couldn't bring together with this information, what has happened in these, you know, states, better yet in these communities, even in these neighborhoods where we're seeing these impacts? What has happened to the bank branches there in the last five years, 15 years, and even 50 years? And how has that weighed in? That's information that's actually at our fingertips, so that would be interesting.

But let's talk about some not quite so easy information. You talked about folks maybe attempting to have accounts or attempting to get credit and being denied. I'd love to see what are the banks offering? What are their practices? What's going on? What banks are using credit scores, or which credit score's cut-offs are they using? What, when it comes to checking accounts, which banks are declining for any check system history at all? Which banks are only offering sizable opening deposit requirements? What IDs are banks using?

I know these are not currently collected, but I think if we could get a handle around more of that, we could have a better understanding of why are the impacts we're seeing happening. As we go forward, which banks are offering safe accounts? And trying to factor all that in I think could make a whole lot of difference.

If we can bring all those different pieces of information to the table, as, again, a practitioner, I think that really helps us because we've not been shy about trying to tackle both sides of this equation. In our Bank On programs, we go out and we educate the public, but we also reach out to our partner banks, and we say, we need you to do a better job, we need you to change your policies, we need you to modify your annual fee, or whatever the case may be.

So, we're not shy about that, and as we go forward, we're going to start collecting more and more data from how the safe account experiences are going. With our children's savings accounts, we actually worked with, in our case, our great partner Citibank, but every city's worked with a lot of different banks to open up these accounts for thousands of kids across the country. One of the things we're looking at is how many of those children's savings accounts are engaged with by families where the parents don't even have a bank account, and what can we do to take that introduction we've had with a bank branch visit, and turn it into a bank account for an adult.

So, I think we have a lot of still unanswered hunger out there. And I think some of it we could actually tackle pretty easily, and others we might need to do a little work on.

MS. CHU: Thank you. Janie?

MEMBER BARRERA: So, from a practitioner's point of view, you know, LiftFund serves all of these dark, dark blue states, you know, from New Mexico to South Carolina. And our experience has been that the funds are just not there for us to be able to serve these poor communities in the rural areas. It's easier to find funds for urban areas.

And so, one of the things when we talk about with bankers is that, in those areas, is that why aren't we helping -- why can't we go out and dive deeper into these communities. And they say it's because the examiners. You know, the examiners are going to come in, and they're going to ding us for making this kind of a transaction. So, how do we look at those -- you know, let's look at what the examiners are looking for when they're going out in our communities, and giving them credit for doing something.

I know, you know, banks have been doing small dollar loans, but it doesn't make them any money too. And so, that's another issue. And so, I know it probably sounds self-serving, but again, CDFIs can work in these areas because we are not regulated to a certain point, that we can -- I mean, we have a terrible business model, right? We lose our best customers. So, that's our role in the industry, is to prepare people that are right underneath the radar screen of the bank, and get them ready for the bank.

So, how do we tell that story again, marketing, let's go out and tell the world that this is an issue, and there is a way to be able to, hopefully, find a solution.

PARTICIPANT: Any other --

CHAIRMAN MCWILLIAMS: I wanted to add

something. I thought the discussion on the trust in banks and banking -- and I really appreciated John's comments, and comments from Michael and Bob. The trust in banks comes from people knowing what banks do, right? And knowing that they can rely on banks. This is where the FDIC plays an important role.

Some communities -- and I think this was very effectively pointed out -- some immigrant communities come from systems where there are cash economies. You would never put your money in the bank. So, when they come to the United States, they don't understand the value of banks. So, I have a hundred bucks, I put it in a bank, and then I have to go to the bank to get my hundred bucks, right? So, to me it looks like work. It doesn't look like a benefit.

So, I don't know if we can come up with some kind of a solution where people see value in banking. So, there's one thing that -- Wade, you mentioned value to the society and the nation as a whole, but it is also the value to the consumers, right? It's a long road from me understanding that my 300 dollars being blocked for a whole year from access would actually benefit me in the long run, right? For a year, all I know is that the bank is holding my 300 bucks, and I'm borrowing from myself, which is painful, right?

So, there is not really benefits. I don't know if there is a way for us to take a look at, do people understand value of banks and banking, right? So, there is the value to the nation, but there is also the value to the consumer. And that has not been perhaps as well articulated to the working poor, because, as you are looking at different issues, the last thing you want to do at midnight is, you know, go to a branch or an ATM and pull your money.

Another thing is a trust in banks. I wonder if our data can be more granular to see if minority depository institutions lack or suffer from the same mistrust in their institutions by their consumers, right? So, as you point out, Wade, you know, you want to see -- you tend to associate yourself better with a teller that looks like you, right? Or a person -- And so I wonder if the MDIs have a role to play here and maybe teach us a little bit about how we can make sure that consumers can trust banks again.

And then, also wondering if our data can focus a little bit more on, somebody mentioned, foreign-born, and also look at the languages spoken in the household. Because, even if they are not foreign-born -- I lived in the San Francisco Bay area for a long time, and even if -- there are multiple generations that are no longer immigrant, that stem from an immigrant family two or three generations later, and they have the same adherence to the principles of that immigrant family that first came here.

So, I don't know how granular our data can be in this area, but I think it could help us understand, is the mistrust in banks driven by the proximity of their cultural understanding about banks to -- I know my parents don't have a checking account, and they don't have credit cards. But their banking needs are well served because every day, I say, do you need any money?

(Laughter.)

And every day, they tell me, no because you are barely surviving. There is something to be said about the immigrant mentality that, no matter how much you can afford at some point in time, they cling on to the first perception of, things could change tomorrow, and you want to have your money in your pillow, right?

So, I think we need to focus a little bit more there. And the only other thing that I wanted to add is for our survey. You mentioned, Wade, I think, that some consumers in rural communities, and especially in African American communities, drive 50 miles to get to a branch because there are no ATMs. The use of ATMs, right? Can we focus a little bit more there?

There are ways to access the banking channels, right? And it's not just that you go to a bank, or you go online, somebody has to give you your cash. And it's either an ATM, or you go to a grocery store, or you go to Walmart, and if you swipe your debit card, if you're underbanked, you know, you can get 20 bucks, if you have 20 bucks extra in the account. So, maybe focus a little bit more on what do ATMs do for the consumers, and then the proximity of ATMs in the communities that have, you know, branches that are spaced out. So, thank you.

MEMBER BOSTON: Can I just add -- I think it's important -- One of the biggest misconceptions, and this is in my work as an educator, is that many people believe that just because you live in a capitalistic society, that you understand capitalism. And we find this especially among African Americans, the poor. We think that, just because they live here, that they really understand how to build wealth. Even entrepreneurs may have a business, and never take time to save or buy a home or invest in the stock market.

So, I'm saying this to say that, using the study and getting back to your point about how we help people build value, is helping millennials, new people in this country, the poor, the underbanked really begin to understand that they're not a victim in this society. They just don't understand how to live in an economic society. And that might be a way we can tie in this work that's so important to their lives, and bring it to the meeting. So, I just wanted to share that.

CHAIRMAN MCWILLIAMS: Excellent point, if I can just add, the financial system can work for them. It doesn't have to work against them, right? So, I don't know how we can maybe get to the point of understanding, do people understand how the financial system can work for them. And I think you went to the point of saying, do people know what their credit scores are, right? Because, if you know where you are lacking, and you have the tools of knowing how to fix it, maybe you will fix it, right. So, I whole-heartedly agree with that.

MR. MILLER: Any other comments or thoughts?

PARTICIPANT: We're back on time.

MR. MILLER: Yeah, we are, we're back on time. So, before we break for lunch, I think I'd have the --

MEMBER HENDERSON: Well, before you do that, let's give them a round of applause.

(Applause.)

(Whereupon, the above-entitled matter went off the record at 11:46 a.m. and resumed at 1:12 p.m.)

CHAIRMAN MCWILLIAMS: The afternoon panel is just about to begin. They don't give me gavel for this reason, I just like to use it. So they lock it up in my office and hide the key. But good luck to this panel, because the last one was so good.

(Laughter.)

I don't know how you repeat that, but good luck.

MR. MILLER: The moderator of this panel is Keith Ernst, whom the members of the committee know well. He's the Associate Director for Consumer

Research and Examination Analytics. Keith?

MR. ERNST: Great, thank you Madam Chairman, Director Greenberg, members of the committee. If you recall, we've dedicated some time in past agendas to exploring the economic potential of mobile financial services. These discussions have been grounded in our survey research, some of which we were reminded of this morning, but also in qualitative research through which we engage consumers in a series of in-depth conversations.

As Pat reminded us this morning, that research identified three dimensions in particular along which consumers saw mobile banking as particularly well-positioned to enhance their banking experiences relative to what they had come to expect from traditional banking channels. Those dimensions were control, convenience and affordability.

For consumers, control meant that they felt that they themselves were in charge of their finances as opposed to their financial institution. Convenience meant that consumers felt like they were able to take advantage of opportunities to save time or effort. And when discussing affordability, consumers specifically cited the desire to increase the predictability of fees and to minimize avoidable fees.

This committee has observed in the past that while mobile seemed to deliver on these benefits, we didn't have specific evidence of the guidelines as to how mobile technology might be best applied to obtain economic inclusion and to promote that goal.

At the FDIC we were in the process of exploring potential ways to do research into this area, to find out how this technology could be shown to specifically deliver on its potential when we came across what we believed and still believe is quite useful and high-quality research from the Financial Conduct Authority in the United Kingdom. In many ways, the research that we'll hear about on this panel goes to the heart of what we were looking to learn next.

So in just a minute, I'll hand the floor over to our guests Paul Adams and Jeroen Nieboer, and let them share their findings and expertise with you. I won't read their complete bios, but I will observe that Paul is actually the co-founder of the FCA's Behavioral Economic and Data Science Unit, and Jeroen is an accomplished behavioral economist in his own right. We feel very fortunate indeed to have them with us.

After their presentation, I think you'll have ample time for discussion and your questions. As you listen to their presentation, I would invite you to consider whether you would expect similar outcomes in the United States. Think about where you see parallels and where you might expect there to be potential for differences in what we talk about.

So with that brief introduction and my thanks to our panelists for making the journey to join us today, let me get out the way and let them get started.

MR. ADAMS: Great, thanks, Keith, and thanks to the committee for having us and for listening to this research. It was a very fascinating presentation this morning. Hopefully we'll keep up the standard. Let's see.

And also, thanks to Keith and the FDIC, we met a lot of the FDIC staff yesterday. It was a really fascinating day and thanks to Keith for setting that up. Really informative, and hopefully this is the start of a relationship, so that's really good.

The research that we're presenting today was conducted to inform rule making, policy making in the checking accounts market in the UK. I have to say the authority of the Financial Conduct Authority is still considering that rule making. It's currently under consultation with the public and other stakeholders, so we might not be able to say everything we would like to but we will try our best to talk to the research and as far as we can into the policy discussion that follows.

To set the scene for today, I'm going to give you a little bit of context about the U.K. checking account markets and the various developments over the last decade or so, and then Jay is going to go into the details of the study and let you get into the nuts and bolts. Hopefully there will be plenty of time for questions, although I'm conscious we're running a little bit over.

So, the sort of big picture here is text messages sent to people when they're approaching or when they're at their overdraft, and I'd like to make clear these aren't text messages that banks offer, they do offer them but the policy that we're investigating is that these banks should also enroll their customers to receive these messages. It's an important distinction of not just offering them, but actually making the proactive step to opt people in.

If we just sort of set the scene for the Financial Conduct Authority in the U.K., we regulate, supervise and enforce in pretty much all financial services within the U.K. This includes checking accounts, lending, investments, insurance, pensions, the list goes on and on.

Payday loans, very niche small providers as well as the largest banks. So that accounts for 56,000 individual firms that we regulate. We also have some prudential regulation that we're responsible for as well.

Now our objective are set by the U.K. parliament, and they include consumer protection, competition, and market integrity, so trust in the markets.

On to the next slide. These are the two papers that we'll be discussion today. One is a historical investigation whereas one is what we call a field trial or a recognized control trial, which seeks to evaluate the impact of the policy.

On to the next slide. This is a little bit of background on the U.K. overdrafts market and I'm aware that there's a language barrier here so I'm going to translate some of the terms that we use for overdrafts are somewhat different to what you think about so here we see, I think if you read from the heading the two types of credit that we're talking about.

We call an arranged overdraft what I think you call a line of credit. After they've gone through a line of credit, or perhaps they don't even have a line of credit, a customer will enter an unarranged overdraft, and that I think is what you guys term overdraft or overdraft protection.

That will be up to a limit, in the U.K. at least, is up to a limit that's set by the bank but not told to the customer, so the customer has no idea how big that unarranged limit will be.

Lastly and finally, we have what we call unpaid item fees. You phrase them as nonsufficient fund fees, NSF.

So in the U.K., we have estimates here from 2014 where we see that these overdrafts, including all these three types of charges, account for 2.9 billion per year in revenue for the main banks, covering 90 percent of the market. The U.S. estimate, I think we have to hold our hands up and say is actually slightly wrong. I think it should be 15 billion dollars, and that's a figure that we've found from the CFPB.

In terms of incidents in the U.K., we see that in 2016 19 million people used a line of credit, 13 million people used an overdraft and seven million people used both of these types of credit within a given year. There's a large level of incidents, and it's a large revenue stream for the banks.

If you think why people would incur these fees, well, in some instances these borrowing facilities are bundled with other features of the product. They may be borrowing on a current account, could be the best available option to them, and it provides them with a liquidity buffer.

And consumers want to know that key expenses are covered despite the fact that they might not be paying attention to their balance. Which may be rational or may be, in the language of behavioral economics, may be irrational.

Much of the policy research in the U.K. has focused on this issue of attention. How do people pay attention to their accounts and to their overdraft charges that they face.

Turning to the next slide, just very quickly a brief overview of some of the academic research, and this is based on U.S. and U.K. research, suggest that there's two main things going on. One is whether people are aware of their overdraft charges to start with. Do they know how much they're going to get charged, so that if they do make a conscious choice to go into their overdraft, do they know how much it's going to cost them.

And the second is attention to account balance. Do people know their account balance at any given time so that they can make that informed choice that says yes, I want to push through into that overdraft.

So there's academic research and there's also policy research from other organizations within the U.K. The Office of Fair Trading in 2008 found that only seven percent of people made an active choice to go into their overdraft, their unarranged overdraft, and they did it because they knew they wanted to make that payment. So that's 93 percent of people who are making some other choice which might not be informed by their active decision.

The Competition in Markets Authority, which is a competition regulator within the U.K. and has just completed a very large investigation into the banking market, found that half of overdraft users were unaware that they'd used their overdraft. They were able to match survey information with actual transactions from these individuals and find that half had no clue that they had incurred an overdraft, which is really striking.

On to the next slide, slide 8, a little bit of background and history and I'll try and skip over this in the interest of time, but there has been some effort to change this. In 2012, banks were asked that they must provide an annual summary of charges, including overdraft charges, every year, very clearly stating how much an individual was charged.

An STA evaluation of that later found

this had no effect on behavior and overdraft charges did change as a result of these annual summaries.

In 2013, banks started to offer text alerts and notifications on your balance levels and potentially overdraft incidents, but these were on an opt-in basis and we find that very few people opt in. Between three and eight percent of people made the active choice to get these alerts. Potentially, these are the most savvy customers, maybe they need helping the least.

I mentioned the Competition in Markets Authority earlier. They ran a three year investigation into the banking industry, into checking accounts, looking at competition as well as consumer protection issues and as a result of that their final report in 2016 ordered that banks must auto-enroll their customers into text message alerts for unarranged overdrafts.

That's one of the alerts that we'll be talking about today, and we try and evaluate what is the effect of automatically enrolling these people into these alerts.

That's kind of the setup. We, as a financial regulator we're interested to see what is the impact of that policy, that auto-enrollment policy, and so that's one of the studies we talk about. But in addition, as I said earlier, we run a further field experiment, very large scale field experiment with two banks, to investigate further different alerts and to see the effect of those alerts.

So that's the scene-setting. Hopefully I've left enough time for Jay to go through the details.

MR. NIEBOER: Thank you, Paul. I'm going to be talking about what we actually did, so there's two sides to this study, the historical data and then the field experiment. I might not speak to all the detail that's in this slides but if you want to ask questions about exactly how things went procedurally, we can do that afterwards.

We looked at two types of alerts. Just in time alerts, which, and I'll explain them in a bit more detail, and second, which give people the opportunity to act after they've received the alert, typically by transferring the funds into their account, and early warning alerts which is essentially a fancy name for low balance alerts. We set them at 100's and 50 pounds for the purposes of our field experiment.

We look at the following consumer populations: People with an arranged and an unarranged overdraft, so people with a line of credit and the protection, which is, as you can see, over half of the U.K. adult population. It's a very common product. Then people with only the overdraft protection, a slightly smaller sample and then a slightly bigger part of the population. People who do not have any kind of borrowing facility, but they're not exempt from these unpaid item charges either. Yes

MEMBER MCCOY: Just as a point of clarification.

MR. NIEBOER: Sure.

MEMBER MCCOY: I take it the difference

between the two alerts, the just in time alert essentially tells the consumer, you are about to commit an overdraft and we give you an opportunity to avoid that. And the other one says nothing about there's a pending risk of overdraft, but just says, you're very close to your limit.

MR. NIEBOER: Correct. Yes.

MEMBER MCCOY: Okay. That's the difference.

MEMBER ANNIBALE: When you say limit, do you mean the unadvised limit? What do you mean by limit?

MR. NIEBOER: I have a sort of slide with some visuals that probably explain it a bit better, but it could be zero, if you don't have a line of credit then that's your limit, or it could be whatever line of credit you've agreed to.

MEMBER LEVERE: Whatever forces you to go negative.

MR. NIEBOER: Sorry?

MEMBER LEVERE: Whatever forces you to go negative.

MR. NIEBOER: Yes, exactly. This is an overview of the alerts we tested and I appreciate there's a lot going on in this slide, but the idea is that we have two types of evidence. RCT, the field experiment, and SR, which is the staggered rollout, which is the historical data that we analyzed.

The columns in the table show you the three different customer populations we looked at, and then the rows show you the type of alerts we looked at.

We looked at just in time alerts for arranged overdrafts, AOD, then there is a combination of unarranged overdrafts and unpaid item alerts, and then there's unpaid item alerts only so for that third population that I just spoke about. We then offered the early warning alert.

So the low balance alerts, we looked at the same three consumer populations and again, we looked at early warning alerts and in this case we only used RCT so we only used field experimental evidence, and you'll actually see the levels, the low balance levels for each RCT so you can see for each population we set at 100 or 50 or both because we did that in one case as well.

Perhaps a bit more intuitive is a graphical illustration, so it's again for the three populations and then you can see if you're that consumer with an arranged overdraft line of credit and the overdraft protection, you could be receiving a lot of alerts.

So, and we tested all of these, there's the arranged overdraft early warning, then the just in time alert, which just kicks in when your account goes below zero, and then there's an early warning for unarranged overdraft and unpaid items, and then there's the unpaid overdraft warning and then separately the unpaid item.

So what that actually means in terms of what happens when you receive these alerts is this. The arranged overdraft just in time alert, as I said, you get it when your balance drops below zero. The unarranged overdraft just in time alerts, that actually has something called a grace period built in, so the idea is your balance is in unarranged overdraft, your bank knows that at the start of the day and they send you a text message.

Then you typically have until two or three in the afternoon, and that cutoff is actually in the text message, to transfer funds and to avoid being charged for an unarranged overdraft. And all of that is explained in the message itself, so you just know okay, if I have the money, I can transfer it and I won't get charged.

Then for the unpaid item just in time alert, it's something very similar where the bank knows that money is going to come out of the account at some point during the day but you don't have it. So they're giving you, and that's why sometimes it's also called a retry alert. They're basically giving you, again, until two or three in the afternoon to transfer the funds so the transaction can go through and you will avoid the fee.

And then finally, the early warning alerts, all of them, they're sent in real time as your balance drops below the warning level. And there doesn't tend to be a huge lag in the U.K. between the balance that you observe and the balance that your bank knows about. So that real time is actually quite important.

So just to quickly cover the natural experiment, what we call a staggered roll out, these were two banks who in advance of the CMA's policy on these two alerts, the one that Paul alluded to earlier, had actually automatically enrolled their consumers into these alerts. This is what it looks like.

So on the next slide you see for Bank A that for the sample that we looked at, 26 percent of customers were automatically enrolled into these unpaid item alerts over a 12-month period, and for Bank B, it was a larger proportion. It was 49 percent of customers. And they were both enrolled into unpaid items and the unarranged overdraft alerts.

That allowed us to, that natural experiment if you will allowed us to get a nice causal estimate of what this was actually doing to people's behavior and how it was changing their charges.

Just a few more details on the bullet points. I think the key one is that we obviously know when people are automatically enrolled. People are not notified in this case, so the banks automatically enrolled their customers but they didn't send them an email explaining these things. Obviously their customer service center caught --- and staff were trained, etc. etc., but it wasn't a notification as such, which is different from the field experiment we ran.

And they could at this point in time only opt-out using their internet banking, so the mobile app wasn't updated yet to switch off these alerts if people wanted to.

And now, sort of high-level on the field experiment, this is where we did quite a lot of things. We tested arranged overdraft just in time alerts and then all of these early warning alerts but in brief, we worked with two banks. One estimate on the just in time alerts is for a two-month period because that was actually the two months right before the CMA's policy came into force so we basically convinced one of the banks to enroll some people early and then we had sort of a treatment in the control group there. For all the other trials, it's a five-month period.

In this case people were notified that they're being automatically enrolled. We thought that was very important, especially considering it was an experiment and we need to be transparent about this. And the opt-out, what's interesting is that both banks allowed opt-outs online again. I think there was no mobile app opt-out here. One of the banks allowed people to opt-out immediately by replying to a two-way SMS message. So it's the kind of text yes if you want to opt out, that kind of message. And you'll see in the results in a moment, that actually makes quite a big difference.

It's a bit more detail here on the sample but I'm going to, in the interest of time, skip over this. We decided to focus on people who were more likely to incur overdraft charges. That's roughly the gist of it.

On to the results. Perhaps unsurprising, if you offer these alerts on an opt-out basis, then a lot more people get them. But what's interesting, sort of going back to that opt-out opportunity, the two-way SMS, if you offer that opportunity nearly ten percent of people opt out on average across the treatments.

If you only had an online opt out, or I think people had phone banking or other opportunities as well to opt out, if you have to actually go and do something, actively opt out rather than just texting no, the opt-out rates are a lot lower. The difference between two percent and ten percent, we thought, was quite striking.

We actually looked at, for Bank 1, how people opted out and the vast, vast majority opted out through that two-way SMS. So we know for certain that it was that mechanism that sort of increased the opt-out rate there.

I guess the bottom line is still more than 90 percent of people receive these messages after they've been notified and it's been explained to them. So they elect to stay opted in.

So again, I appreciate there's quite a bit going on in these slides, but I've just highlighted the main findings there. In the top column, the two numbers are for the arranged overdraft just in time alert. This is the one that tells you, you are now using your line of credit, and we have an estimate from Bank 1 and Bank 2.

For Bank 1, it's 7.3 percent reduction in total charges per month. For Bank 2 it's 2.7, and the actual estimate is in pence, so 45 pence a month, 29 pence per month. These are always the averages, so there are some people who are not necessarily helped by these alerts but we consider these quite good indicators that these alerts are really helping people.

For the unarranged overdraft and the unpaid item alerts together, that's the second column so that's those four figures, and the reason we put all those figures together is because we thought it was very important that we had both the experimental evidence, which is in a sense the strongest standard of evidence, right next to our staggered roll-out experiments. Just to check that our early estimates, historical estimates, were correct and robust.

And here you find some quite big effects, especially if you look at the unarranged overdraft only population, so people without a line of credit. Very similar for the RCT and the staggered roll out, about 18 percent reduction of monthly fees, which is mainly driven by the fact that for the arranged overdraft population, people with a line of credit, obviously they have both the line of credit charges and the overdraft charges.

So it's going to be, the percentage is going to be a smaller part of their total charges. But specifically for this unarranged overdraft only population, we see this quite big effect.

And then lastly in the bottom right corner there's the effect of just the unpaid item alerts only population, and we also find for those people it makes a big difference to the fees. So even for people who don't have a borrowing facility, avoiding these fees is very useful.

This is, I've just been talking about the just in time alerts, this is for the early warning alerts. And I haven't actually highlighted any of the findings. You'll see that effectively the estimates with the stars next to it, that's statistically significantly different. There are not as many significantly different findings here. It's quite patchy.

Effectively, what you find here is that there's no evidence across all the banks we looked at that these alerts are useful. So even though it's, in a sense, you get a warning before, you get more time to respond to the alert because you know that you're at 50, you're not at zero yet, but there must be something about the way this alert is set up.

Maybe people don't worry about it just yet because they think, well, I still have money, but these early warning alerts are actually less effective than the alerts that happen just in time.

We thought that was really striking.

Then, sort of very quickly on the survey that we did as well. So, looking at people's transaction data is obviously only part of the story. We also wanted to speak to people, we wanted to find out what they did and we also wanted to check whether they supported being automatically enrolled into these alerts, whether they were perhaps getting tired of getting too many alerts.

The highlights of this survey are that the most common actions are to transfer savings from your savings account, you cut back on spending if you can, or you borrow from friends, family or an employer. Those were by far the most common responses. We were worried that people might say, oh, I took out a payday loan to pay off my overdraft, and that they ended up in more trouble than they were in to begin with, but that wasn't the case.

Then the second bullet point tells you that people are overwhelmingly in favor of being automatically enrolled. That doesn't mean that there weren't people who said, you know what, I prefer to sign up for this kind of thing myself, but the majority of people preferred to be, they didn't have a problem with being automatically enrolled.

And then finally, this question about alert fatigue. The question was, is the frequency with which you receive these alerts about right, or not often enough, or too often, and we have a very small percentage of people saying, we receive these too often. And then even so, people could obviously opt out quite easily. So we didn't think it was too disruptive.

Just to summarize the research, the CMA policy alerts, so the unarranged overdraft and unpaid item alerts, reduced total charges by 45 percent for people with a line of credit and overdraft protection, then about 18 percent for people with just the overdraft protection.

The arranged overdraft and just in time alerts were also consistently effective. Early warning alerts, much less consistent and not so effective, and the survey indicates, well, I've just gone through the survey, but it sort of indicates that there's nothing necessarily to really worry about when it comes to automatically enrolling these people and that we could not find strong evidence of unintended consequences here.

That, I think, sums it up quite well. We have one more slide which gives you -- which I won't talk to, but it's this one, which is the wider policy context, and that tells you what the FCA's been doing more broadly and as you can see, alerts is in that box that is for consultation, as Paul said at the beginning.

There are also some bit more drastic measures that are currently discussed, so that's some of those for discussion. Interventions are currently in a discussion paper, but that is much less finalized so I wouldn't say that that is FCA policy. And that is it. Thank you very much.

MR. ERNST: Great. Thank you for the presentations. Members, I couldn't help but note your response to the early warning alerts and their lack of clear effectiveness, and I think that for me really highlights the utility of not just going with intuition but putting in the hard work that our guests have done to conduct research and sort of understand, do our intentions play out the way we expect or do they not?

It's entirely intuitive and easy enough to assume that an early balance alert would lead to changed behavior, and I think the fact that the research doesn't bear that out says, goes all the more into demonstrating the value of investing in those strategies.

I'm going to turn the floor over to the committee at this point and start by inviting your initial responses. What are you taking away from the research, what questions does this raise? So Bob and Michael, I think.

MEMBER ANNIBALE: Thank you very much. As somebody who lives in London and has accounts in both countries, the real challenge here and this is very helpful to us, is of course the very slow clearing payment system we have still in the States, where I know in London when my goddaughter calls me and says she's going into overdraft, I can get online and cover it at two in the afternoon or something. If I transfer funds from one bank to another it's in her account.

So probably the learnings also around the early warning are going to be most important for us here, and we know that most clients don't always know where their accounts are especially because our payment system is slow, and clearing system, and we still have more prevalence of checks than you do in the U.K. as well. So that clearing time of a check is particularly a mystery. Years ago it used to be if it was an out-of-state check ---

(Laughter.)

My father used to say, and look at the bastard, they gave us an out-of-state check. It was going to the moon for clearing, I don't know where it was going. Today, that's -- or I hope it's not the same. But this is really important and I think for us, those of us who have, we have the systems at Citi, we have these systems that allow our clients to set these themselves. You can set when your balance goes to a certain level, whatever threshold you want.

I think it just reaffirms that still the opt out is, at least for certain categories of product, probably is the way to go. Your results are not as strong on that as the other, but we don't have the option. I think that that learning is still validating for us.

MEMBER BARR: I'm just going to pick up exactly where Bob left off. First of all, this is just terrific and I'd love to see this kind of work being done regularly in the U.S. policy context as policies are being formulated, and then rolled out. Either you have more flexibility to do that in your regulatory structure than we do, and I think it's a real problem that really inhibits good policy making in lots of ways.

Secondly, as Bob said, our regulatory structure both on faster payments and on good funds availability, is a real hindrance to consumers having actual empowerment, ability to control their own financial situation. So our underlying problem is worse, and some of the ways that you fixed or are working on fixing your problems aren't currently available to us.

That's a choice that we're making as a country and it doesn't make any sense. I'd really love for the FDIC and the Fed to be pushing this process much faster forward so that we could, both on good funds availability and on instant payments, be where the rest of the world is or is heading more rapidly than we are, and with devastating consequences for households and for businesses, for that matter.

I have two questions for you. One is, did you think about doing real-time alerts before the payment is actually made? That is, let's say you're wandering into the store and you whip out your debit card and you want to buy a pair of $200.00 jeans or whatever it is you are going to do, integrating into the payment system itself the alert to you that that would cause you to overdraft or to reach your limit in some other way.

That might be an additional effective tool, particularly for the people who could choose not to spend but don't have the option to move savings over to cover, which is a big group of interest.

The second question is about the distribution of costs and the distribution of effectiveness across the population. At least in the U.S. context, the overdraft usage tends to be concentrated with, to make up a number but it's pretty close, 80 percent of the cost is incurred by 20 percent of the population.

So what's the distribution of costs here, and is the distribution of effectiveness, does it track the distribution of costs, or are your prompts more effective for people who need it the least, or are they most effective for people who need it the most? What have you learned about that?

MR. ADAMS: Sure. I guess I'll take the first question and Jay perhaps can handle the second. One thing to note on these grace period alerts. If the bank can see a -- we call it a standing order or a direct debit that's going to be coming out the next day or towards the end of the day, then that will trigger the notification. So in some instances ---

MEMBER BARR: A preplanned. Like utilities and things like that.

MR. ADAMS: Precisely. So that is one step towards I think where you are heading. We did consider the idea that you might have point of sale notification. I think partly it was feasibility constraints in running an experiment in that environment and having to have payment systems adapted to do that, which would be a real big task.

I also think it's, all of our work and all of our policy has to run through a cost-benefit analysis and adding that extra layer of tech change maybe is one step too far even for our payment systems. So yes, I think it would have been a great idea, and it's just what's feasible and realistic in the environment.

MR. ERNST: You want to respond to the one then Pat will come to you?

MR. NIEBOER: I don't know that sort of a comparison of distributions is on this arranged overdraft and line of credit, but I had a few conversations over the last couple of days about unarranged overdraft, overdraft protection. I think the distribution's very similar.

So, actually the first paper, policy paper that we put out, has the distribution figures in it and we find that 80, more than 80 percent of people over a year period don't use this overdraft at all and it's the remainder of the people that pay all the fees, and then the more you go towards the higher end of costs, the more striking that concentration becomes.

So you will have something like, I don't know, ten percent of users pay 70 percent of fees, that kind of distribution.

And then second, your question about was it more effective for infrequent users or frequent users, it differs a little bit but for the unarranged overdraft and unpaid item alerts we saw a very strong relationship between usage and effectiveness, and as you might expect, the people that are infrequent users can avoid these charges a lot more often than the people that use them frequently.

MR. ERNST: Thank you. So Pat, and then Andrea?

MEMBER MCCOY: Thank you. This is absolutely fascinating and really provocative as we think about these issues in the United States. I had a couple of thoughts. One is, as we've seen with our experience with automatic enrollment in workplace pension savings systems here, automatic enrollment is highly successful at increasing rates of participation but that's just the beginning of the story.

And one of the implications I'm drawing from your research is the same, that then there's the question of the timing of the content of how the opt-out opportunity is the channel through which it's operating, et cetera. And I think it's a, it reminds us that there are many more design issues to work out after we institute automatic enrollment.

I do have a question that follows up, Jay, on our earlier colloquy which is, I'm trying to parse these really dense tables and I did have the pleasure of reading your materials on the plane last night, but I'm still struggling with how much of this is a story about the substantive message, which is either you have an item pending that's about to put you in a negative position versus you're a hundred pounds from running out of funds.

In the latter scenario the reader might think, well, I have no pending items so I don't have to worry about that. Is it substance, is it timing of the message, is it an interaction of both? I'm having trouble sorting through that.

MR. NIEBOER: It's a bit of a cop-out, but we're working on that, is the real answer.

(Laughter.)

As a policy paper, I guess we've answered the main question we believe, which is which one of these is more promising for automatic enrollment, but as to the mechanisms, that's something that we're currently working on with our academic coauthors. I don't have the answer at the moment, but stay tuned.

MR. ERNST: Can we go to Andrea and then to Phil?

MEMBER LEVERE: Thank you for doing this work. I'll just echo my colleague Patricia's interest in this, and so I want to ask you a question you probably can't say specifically, we're not going to have an RCT about this, but when you were talking about the alert and perhaps the unexpected harm of people going to payday lenders, my sense, and I don't know this, is you have vastly superior regulation of payday lenders than we do. And so I wonder if that is a factor in folks not using payday lenders that may not be the same here, if you have any thoughts on that.

MR. ADAMS: The payday market in the U.K. is a little bit, or quite a lot different and as you say, is very heavily regulated and supervised by us. In fact, the government has created an opportunity that we should put a price cap on payday lenders.

MEMBER LEVERE: Throughout the whole country?

MR. ADAMS: Yes. Throughout the whole country. Doesn't matter whether it's in-store or online, there's a cap on the interest charged. That said, it's much more mainstream than it is here, and possibly that's because of this regulation.

I think it is an interesting question to know, are these people substituting between overdrafts and potentially other forms of credit, and that might be credit cards, might be the most obvious choice, or it could be payday lending.

Again, we have no, apart from the survey, which we think is informative, we have no way of really telling what people did in these situations.

MEMBER CISNEROS: What is the price cap?

MR. ADAMS: The price cap is a combination of a daily fixed fee of 0.8 percent plus an overall envelope that you cannot repay more than you have borrowed. So it's 100 percent cap on the entire thing.

MEMBER LEVERE: Thank you.

MEMBER SWAGEL: I just want to follow up and ask a similar question. I've been trying to translate this into the U.S. experience, and I think at one part, Jeroen, it's the obvious thing for us to do. And of course the U.S. regulatory system is, I think balkanized is the term of art.

CHAIRMAN MCWILLIAMS: Take it easy, Phil.

(Laughter.)

MEMBER SWAGEL: Some of my best friends are Serbians. And anyway, it's striking that the FCA, if I understand it, regulates small, well you know, small banks, non-banks, auto lending. I was here when Michael Barr designed our regulatory reform, I guess you didn't want auto loans to be regulated or something.

(Laughter.)

MEMBER SWAGEL: No, no, we tease each other. Bush versus Obama. I mean, it seems like it's a big advantage since your system doesn't have some of the challenges of the U.S. That was just my first thought.

And I was wondering if you know to what extent, and you will see this is where I'm following up on Andrea, that this sort of overdraft, routine overdraft, the planned overdraft as you call it, substitutes for things that in U.S. context would be the choice of, say, credit card versus debit. Someone has two pieces of plastic and they choose one or the other, or I guess on some screens you can choose is this debit or is this credit?

And maybe another piece of the same question is, what percent of British households have credit cards? Do you know how that compares to the U.S., which I don't know those numbers offhand. So I just wonder if it touches that, you know, how much the institutional context translates over?

Oh, and I should also say, it's a really neat paper. So I started here, it's a really neat paper.

MR. ADAMS: I'm not going to give you

numbers because I'd probably get the precise figures wrong, but credit card debt in the U.K. is very large and significant. We have a similar pattern to you guys that credit cards, auto loans and personal loans are by far the biggest consumer credit products in the U.K.

And there's, we've got actual research on credit cards. We could talk another hour about that but there are policy measures in the credit card space as well to try and reduce that debt, help people make better decisions when they're using their credit card.

Certainly I think many individuals will have both a line of credit and a credit card and will be maxed out on both of them. That, I understand, is a similar picture.

MEMBER ANNIBALE: It's very prevalent. Even students in the U.K., students can get overdrafts in checking accounts and get credit cards so it's very, very prevalent to have both.

MR. ERNST: Thank you. I want to go to Calvin.

MEMBER BOSTON: Yes. I have three burning questions. The first was, does the Financial Conduct Authority have an advisory board?

(Laughter.)

MR. ADAMS: Are you offering your services?

MEMBER BOSTON: Take your time. The other thing, really the question was --- I'm thinking about some applications in the Unites States, and we do have FinTech companies trying to, looking at sending these messages out, I think, though, for banks and financial institutions in the United States.

Have you looked at the costs as related to sending extra texts in as many of the texts that you're doing, and then also, do you have a mobile partner that you're trying to identify that might help you, one mobile company that's better than others that will help you keep the costs down? Just curious about that.

MR. ADAMS: We have, as part of our

consultation process, we have to do a cost-benefit analysis, so we have done that and looked through whether this is net beneficial. I'm looking at Jay to see if he remembers now. Presumably that has shown that these alerts are helpful over and above the costs of firms to implement.

In terms of that cost, most of it is in systems changes for the banks themselves. The marginal costs of sending text messages to 10,000,000 people or 20,000,000 people is very small. I mean, there's really no cost in that. It's really up to the banks in a way and the financial services providers to go away and implement this. They can either work with third parties and mobile phone providers or just through existing systems.

It is telling that these banks already had this option, they were offering these alerts to their customers, but not auto-enrolling them. So the tech was there, just not used.

MR. NIEBOER: Just want to add one quick thing, also the cost of a message is going to go down really quickly with push notifications through mobile apps starting to replace text messages. So we, already one of the banks that we work with had that option for people to say no, I don't want these as a text message, I want these through my app. That's really the future. All banks are building those platforms at the moment. And then the cost effectively goes down to zero.

DIRECTOR GRUENBERG: I do want to be conscious of the time, but I didn't want to let the opportunity pass without saying it's great that we've established this relationship with the United Kingdom. We have a lot of relevant experience to share with you and I just hope, as they say, this is the beginning of a beautiful relationship.

And too, the work here that you've done, while I really think you are to be commended for being so forward-leaning in this area and finding a way to assist consumers to manage their accounts in ways to reduce the fees, and in a way that the banks themselves can apparently have the ability to provide these notices without undue burden.

It's very much in line with some focus group work we've done, where we've looked at customers and how they utilize mobile technology, and what was clear from the focus groups is that the low-hanging fruit that the consumer most frequently utilizes is to use the mobile phone to check the balance in their account to avoid fees.

What you are doing here is providing a little bit of assistance to the customer in doing that, and there's real cost savings and value to the customer, so I really do think there's relevant experience here for us too.

MEMBER RYAN: Do the banks continue with the program, I would imagine they've lost revenue compared to competitors, and so how is that playing out?

MR. ADAMS: We actually gave them the choice after the field experiment whether people would remain enrolled in these alerts or not. I would guess from a customer service perspective you probably wouldn't switch them off for people after the trial, especially not after they've gotten used to them.

But that choice is really the bank's, so when we had the initial discussion about the RCTs and the parameters of those, it was up to them to tell us how many consumers or customers they could allocate to different treatment arms, so I'd like to think that they went into that with their eyes wide open. I think, and to be honest if you look at the samples compared to their entire customer base, they're really tiny.

MEMBER RYAN: Did the Bank A and Bank B, were they self-identifying? Did they, what was the selection? You had your own selection process and identifying how to --- okay.

MR. ADAMS: We went to the whole market, which is only six major banks in the U.K., they cover probably about 90 percent of the market, and went to them and said, these are the parameters of what we want to do in terms of the field experiment, who is willing to partner with us? And these two banks were well placed to do that in terms of their size and their systems.

MR. MILLER: I think we're almost back on time, so why don't we take a ten-minute break and come to the last panel?

(Applause.)

(Whereupon, the above-entitled matter went off the record at 2:05 p.m. and resumed at 2:22 p.m.)

DIRECTOR GRUENBERG: Jelena got stuck on a phone call. So, we're going to proceed. She'll be with us in just a moment.

So, Jonathan?

MR. MILLER: Great. Thank you very much Marty. So, our last and most exciting panelists --

(Laughter.)

MR. MILLER: You can explain your program in a positive cast. This is where all the research gets real.

And it will be moderated by Luke Reynolds, again, a familiar face to this group. A Chief -- who's a Chief of Outreach and Program Development here at the FDIC.

Luke?

MR. REYNOLDS: Thank you. For this afternoon's panel, my goal is to create greater awareness of opportunities to promote banking connections for low income young people, and what is often their first formal job. And then get your insights on how we can strengthen our work in this area.

After very brief remarks, my colleagues, Jeff, Heather, and Tom, will bring to life how a local collaboration came together. And then Desmond will share some key findings from a relevant research pilot.

Over four million young people are out of school and not working. These are generally low income. Not low and moderate income, but low income. Young people who come from low income families.

One federal response is the Workforce Innovation Opportunity Act. Which through formula-funded programs, provides federal funds to Workforce Development Boards through the states.

The law requires that these programs offer -- or make available a financial literacy element. And in particular, the law encourages age appropriate financial education that provides opportunities for young people to put their knowledge into practice, such as through safe and affordable financial services.

The Workforce Innovation Opportunity Act also funds some grants. Financial education is not required to be offered for those grants. But practically speaking, many of those grant funded programs do so.

Examples here include Youth Build and Job Corps. Then practically speaking on the ground, state and local governments set up their own programs that combine federal funds with state and local dollars.

Other times you'll see public and private partnerships where government monies are leveraged with private sector dollars. And then you also see completely private sector led initiatives such as the Hundred Opportunities

Initiative.

Shortly after the passage of the Workforce Innovation Opportunity Act, we began collaborating with our partners on the Financial Literacy and Education Commission to assess what our next -- best next steps would be.

We soon began doing two things. First, we improved our toolbox. We created crosswalk tools to help youth employment programs know how elements and money smart relate to the requirements of the Workforce Innovation Opportunity Law and Regulation.

Which I think everyone here knows, Money Smart is the FDIC's free financial education program. We also created a conversation starter tool to help youth employment program leaders know how to effectively talk to banks and engage banks.

For example, we encourage them to call out the low income nature of families they serve. And discuss available opportunities.

We created a supplement to our popular Selecting a Bank Account Checklist, to help young employment -- youth employment program leaders lead an informed discussion with young people about using the checklist to select the best deposit account.

And then we worked with our colleagues on the Financial and Literacy Education Commission to develop two new guides.

One is focused specifically, targeting specifically to financial institutions. Alerting them of the opportunity to work with youth employment programs.

The other is for youth employment programs alerting them of the opportunity to work with financial institutions.

And in addition to improving our toolbox, we made youth employment pri -- youth employment a priority for our outreach.

Speaking engagements including those conducting collaborative with the Bureau of Consumer Financial Protection and the National Credit Union Administration, include us speaking at National Assoc -- National Workforce

Association Board conferences, National Association of Workforce Development Professionals, and State Workforce Boards.

And then through our community affairs function, which we've shared previously, where we work through our field staff to bring together banks and nonprofits and state and local government leaders and others to advance economic inclusion and promote community development.

We identified opportunities in some communities to bring together youth employment programs with financial institutions.

Jeff, can you tell us a little bit about how a collaboration to connect financial capabilities' services to youth employment programs can come together?

MR. MANNING: Sure. Thank you Luke. Good afternoon everyone.

This came from the initial discussion with Greater Lowell, came back from the 2016 Bureau of Consumer Financial Protection's 24 city pilot program.

From that the 24 cities were shared with my area manager, a gentleman by the name of Tim D'Alessio in the Boston area office. He reached out and spoke to both the Bureau and the Department of Labor regarding the type of assistance that Greater Lowell was looking for as part of their summer job's program.

From that, Mr. D'Alessio and I had several conversations with Greater Lowell. Heather was involved in those conversations as well.

They asked them exactly, what did they need? And what would they need us to do for them?

Part of the discussion and what came out of it was, we decided we could put together a banker roundtable. So what the FDIC did was organize a banker roundtable.

And reached out to 12 institutions, all financial institutions in the City of Lowell itself, and invited them to this session.

At that point, the goal of the opportunity was to raise awareness to promote safe and affordable bank access to the participants. Participants are between the ages of 15 and 21 in the summer job's program.

Part of it is that they are required, the City of Lowell requires all employees to get part time, full time, or interim, to have direct deposit. Thus, creating the conversation between Greater Lowell and the FDIC as far as how can we give the kids bang?

The program is all low income individuals from the city. The intake process normally starts sometime in February.

And then it goes on through the year. And then it culminates with the orientation that they've had. And then the summer jobs program starts in August.

So we usually go in in June. And we will speak with the Greater Lowell Board, the organization and their summer interns.

So what we did was the result of the roundtable. We had several of the institutions in the city agree to assist us with financial education and offering accounts for the kids.

Most importantly, we had several meetings and discussed the account parameters as far as identifications. The check systems was discussed because it's a minority/majority city, with some of the fraud that maybe obvious or prevalent in that area.

And the biggest thing that came out of it was, everyone agreed that there would be no overdrafts allowed in this program. The younger participants under 17 -- excuse me, under 18, would be offered a statement savings account with access with just an ATM card. Not a debit card.

So all they could do is go to the bank when they needed funds. The older participants between 18 and 21 could have either a checking account or a savings account. And were allowed to have a debit card.

And again, the biggest thing was, and all the institutions agreed, there would be no overdrafts. Thus to a degree, even though most of the banks did not have what they called "a safe account," without allowing overdrafts, in a way it served as a safe account for the individuals.

Part of what we did was, I had gone in that first summer, and we provided Money Smart Trainer the training to the summer interns of the Lowell folks. I was, I believe, 12 -- 12 college students that were their interns.

We did a half day Money Smart Train the Trainer. Which in turn, those interns went back to the classes, and they have an orientation piece that lasts about two weeks.

And during those two week periods, they were all given Money Smart training as far as from a bank owner's standpoint, credit, things of that nature. It was fairly high level. But it was to introduce them to it.

They were also given a little worksheet for -- a questionnaire if you will, to interview the banks when did the Fair itself.

So, we encouraged them to go to each of the individual institutions, not just walk to one and open the account. We encouraged them, and

Heather can get into that as far as encouraging the kids to speak with all of them.

They interviewed the banks for their accounts. That's kind of what it came down to. It was a chance for them to have a piece of paper and ask them questions one on one.

It was actually quite something to see, a bunch of, you know, 15 to 21 year olds interviewing a bank person for their account.

So what we did was working with Heather and Lowell, we organized the Financial Institution Products Fair that culminated the end of their orientation two week period.

So we had one at the end of the first week for the first 125 participants. And we had another bank fair the following week for the second 125.

Pretty much we laid out exactly what we said we would do. This is what's going to happen. These are the types of accounts all the institutions agreed to offer.

In the first year, out of the 250

participants, there were 185 accounts opened. Some of the kids it was typical, their parents told them they could not have an account.

So we talked to them why. And they explained it to us. Other kids already had accounts. Which was great to see. And they were in some of the institutions that were in that room.

So they went over and just talked with them about, you know, gee, what else can I do for my account? Can I -- some kids actually had checking accounts, and then got savings accounts.

So, it was nice to see, you know, the interaction between the young people and the financial institutions themselves.

And with that, I'll pass it onto Heather. Thank you.

MS. DONOVAN: Okay. Thank you. Do I have to turn this on?

MR. MANNING: Oops, sorry.

MS. DONOVAN: Well okay. Thank you. So just a little background. So, I am with the Mass Hire Lowell Career Center and the Mass Hire Greater

Lowell Workforce Board, which falls under the Department of Labor in the Executive Office of Labor and Workforce Development.

These programs are all that I've ever done. And I am very passionate about it. So, when this opportunity arose, we really jumped on it.

So, we run a number of programs. The summer programs and the year around programs. Just really quickly about our year around programs. We run federally funded, state funded and locally funded programs, including the WIOA program that you heard a little bit about.

And a disability employment initiative specific to young people right out of our office. And each of our programs does have a work experience component.

So we provide paychecks to young people, which really helped push in the direction of incorporating financial education. Because, as you know, if you give a young person money and don't explain to them their options of what to do with it, they're probably going to make some bad choices.

So, in regards to the summer program that we're mainly talking about today, over the past two summers, we have served over five hundred young people, all between 15 and 21. And all Lowell residents.

So they do have to live within the city to qualify for the program. One hundred percent of that population is low income. So, you cannot get into our program unless you qualify as a low income individual.

And we really, even before WIOA, we were working on getting involved in financial education. But, we really wanted to push for young people to be capable instead of just to be literate.

We really wanted them to be able to understand what to do when they received money, how to set financial goals. All of the things that sometimes we take for granted. We wanted them to be able to do that themselves without us when we weren't there.

So, as Jeff said, we run in the summer,

day long workshops in regards to financial education. Part of that was a questionnaire that we went over with young people ahead of time so that they felt comfortable in their ability to speak with banking professionals about what was best for them in regards to their location, the services that they were interested in.

We wanted them to choose an institution that was close to them. So that when they weren't working, they could still go down the street and walk to it if they needed to.

So, we hold our workshops at a local community college. Which is very familiar to everyone in the area. And we do that on purpose so it's really easy just to go to the big brick building and we'll be there.

It's a way for us to partner with the community college that gets young people access to the college on the education side, who might not have walked into that building any -- without us.

But it also is a great space for us. And it's a community space that allows us to make the young people feel comfortable in situations where they know.

So, we're not asking them to go into some place that's unfamiliar with them. And if you've ever asked a young person to go somewhere they don't want to go, it's not happening.

So, --

(Laughter.)

MS. DONOVAN: I have two small children. And I don't go places all the time, so.

So, we really worked as a team. This roundtable that was brought together, was really inspiring.

There were so many people who really wanted to jump onboard and help these young people to understand, and you'll hear more about that from a banker's perspective in a minute. Help them understand that, you know, you didn't have to be a professional to walk into a bank and get great service.

So, we did agree that we would open accounts specifically for young people with no parent or guardian's signature on the account.

And we did that specifically because we wanted young people to be able to utilize their funds and set their goals without having a parental or non-parental guardian able to access the funds. Because in our area, the research that we've done shows that unfortunately the case is that sometimes young people don't get to spend their money or do what they wish with their funds.

So, we did. We all sat around and agreed on that. We also agreed that anyone who came to the financial product fairs would be accepting a birth certificate and a social security card as the two forms of identification. And a photo ID if they had it. But if they didn't, it wasn't a deal breaker for anyone.

So, everyone at the roundtable and on the council that we then decided to convene from this roundtable, and that we still convene to this day around financial literacy and capability and products that in order to participate, you had to be able to accept these items and these items only.

And one of the things that my staff did to make that easier, is we copied all of those documents. So, we have a really strict enrollment process. You have to prove eligibility, because they're a federally funded program.

And because of that, we had what was needed in order to open the account. So, we set up packets for each young person so that they felt that they were prepared when they walked into the financial products fair.

That if they found some place that they felt comfortable, all they had to do was go apply. And speak to them. And give them their documentation and not worry about all that backside stuff.

So, we really took care of that for them. In the hopes that it would make them feel more comfortable.

But also make the process easier, and show them that it didn't have to be a tedious process to open an account. And that you could do so rather quickly if you really wanted.

So, -- and then we already spoke about the -- the questions. But, I think one of the big things in Lowell is that we work really well together as a team.

If anybody needs anything, no matter if it's nonprofit, government, financial, everyone sort of rallies. Which I think is great.

And that's really one of the things that really got this program off of the ground. Was the ability for everyone to work together. Which also shows young people how important it is to make those connections early.

So, I did -- I have a little bit of data. So, why is it so important that we teach young people to be capable?

So, I'm going to speak to the first two -- first two after, because I think that they're the most pronounced. But, comfortable with banking institutions, we see that that rose pretty highly.

Understanding paychecks. Now, these were the paychecks that we were already giving them. And so if they didn't understand them, what were we teaching them really?

We're just giving them some money to go -- go pay a big fee on and cash. So, that jumped pretty well. The pre is the dark green. And post is light green.

And then creating goals. I was actually really pleased to see that many already felt like they could create goals. But, the fact that we were able to add onto that, I think, made a huge difference.

The two that I just wanted to mention, so credit. You can see a lot of them felt like they understood credit to a degree.

Almost 62 percent of them felt like that. But at the end, 100 percent felt that they understood about credit.

And 100 percent in anything is like a magical unicorn, right? Like you never get 100 percent.

(Laughter.)

MS. DONOVAN: So, that --

PARTICIPANT: Not in this life.

MS. DONOVAN: Yeah. That's really -- it really speaks to me about the curriculum that was taught.

We did do an amended version. Which I thought was great. That we amended for our population and the time frame that we had.

And then the importance of financial relations, I think, is the most striking to me. Nobody believed they were important.

And that, to me, as somebody who has had a bank account since a child, was amazing to me. And the fact that that rose to 60 percent feeling that it was important, is a huge -- even if that was the only thing we measured, I felt like that would have been enough.

But knowing that, you know, over five hundred young people didn't understand why they should care about a financial institution, or why it mattered for them in their life, is probably the most striking statistic I've ever seen in anything that I've done.

And then also on the flip side, every summer we pay out over 350 thousand dollars in young adult wages. That money is going somewhere.

So if you're participating at the financial institution, that money could be going to you. And we'll hear more about funds and where they go and what happens to them.

But, it's a significant amount of money that we're putting back into the community. And to be able to have that go into financial institutions rather then check cashing, or Walmart, or wherever else they're going, Burger King, I don't -- wherever they eat, is -- it's outstanding.

It's a significant amount of money. And that doesn't take into account the funds that we put in the year round programs. Because we pay work experience wages through the year round also.

These are two photos of our financial product fairs. The reason I love these photos is that there are bankers in these photos, as well as young people.

And if you look at it, you really can't tell the difference. So, --

(Laughter.)

MS. DONOVAN: One of the -- we also prep the financial institutions prior to these, you know, with some comments about, don't wear a three-piece suit. Bring some swag. Young people love things, you know.

(Laughter.)

MS. DONOVAN: So, we do work on all sides. We prep the young people. But we also prep the banking community with these young people are coming from a place where they might not be comfortable because somebody used their name before.

Or, they might not be comfortable because their mom and dad tell them not to put their money in a bank. And we've actually had some situations where young people come in saying that.

They walk around. And by the time they walk out the door, I'm like, oh, where'd you get that bag from? Oh, I opened an account. Oh, that's great.

You know, so just feeling comfortable enough to trust that somebody in the banking world is okay, regardless of what happens at home, I think is huge.

So, I just wanted to share a couple of these real life photos. And then we had some just comments.

So, some more results. Young people who enrolled in direct deposit felt like they were more successful in saving money for larger term goals.

And as you heard, direct deposit is something that was -- is something that is mandatory. Sure.

I might have said it was mandatory and it might not have been. But, we will just let that go.

(Laughter.)

MS. DONOVAN: But, they're able to, along with opening accounts, they enroll in direct deposit at literally the same time. So, they walk out of there having an account and a direct deposit.

Or if their financial institution is there, they walk over, fill out their direct deposit paperwork. So, they don't have to worry about it after that day. So, it's convenient for them.

Shopping for banks, which is sort of what it was, and financial institutions opened up communication at home about financial responsibilities. So, young people went home and talked to their parents or guardians about their experience, the financial institutions they talked to, the ones they choose, and why.

And you know, financial responsibilities, like taking care of some of the bills. And how that would look for them now that they had an account and things like that.

And they felt more comfortable in this setting then walking into a bank. I think as a young person sometimes they feel like their business isn't as valued.

And I don't think it's necessarily a

reflection of anyone person, place, or thing. It's just a culture that they've sort of come to know.

So they felt really comfortable in this setting. And they felt that their business was valued by the staff that they spoke to. Which I think is huge also.

So, that's my piece.

MR. DAUGHERTY: Thank you. Good afternoon everyone. You want to take a quick photo?

(Laughter.)

MR. DAUGHERTY: Awesome. Just trying to help you out.

(Laughter.)

MR. DAUGHERTY: So good afternoon. My name is Tom Daugherty and I'm a Vice President with Eastern Bank.

Eastern Bank can really be summed up in a kind of three bucket perspective. We're a full retail bank, and insurance company, and we also do philanthropy.

I'm very proud that Eastern Bank just earned top marks in our 2018 corporate equality index. And several other awards that we consistently win.

So, looking at a little background about Eastern Bank, we are the oldest and largest mutual bank in America. And we are headquartered in Boston, Massachusetts.

We have just a little over 11 billion in assets. And about a little more than 120 locations in eastern Massachusetts and southern New Hampshire. And we actually just started going into Rhode Island with some of our insurance.

Just last week it was announced that we were the number one SBA lender in New England for the ninth year in a row. And the number one SBA lender in Massachusetts for the last ten years in a row. We worked very, very hard on that.

And something that I absolutely love about the bank, and this is why I will remain with this bank until the day I retire, is it's actually in our charter that 10 percent of all our profits that we make go back to the community.

So believe it or not, as a branch manager, part of my job is to find nonprofits that are worthy enough to give money away to. It's a really interesting thing that we're giving money away. I love it.

And this year, one of the things that we also did, besides doing the 10 percent, we do a thing called targeted grants. And every year our targeted grant is a little different.

Last year it was about immigration. The year before that was about domestic violence. And this year it was about women advancing women.

So we set aside 1.5 million dollars in honor of Rebecca Sutton. She was our very first depositor back on April 15, 1818. So, we just celebrated our 200th birthday.

So, our very first customer was a woman. Now, she was allowed to have a checking account, but she was not allowed to go into the bank.

MEMBER LEVERE: I was just going to ask. Right.

(Laughter.)

MR. DAUGHERTY: So, her attorney actually had to go in to make the deposit, believe it or not.

MEMBER LEVERE: Could she have it in her own name?

MR. DAUGHERTY: She could have it in her own name. But she could not go into the bank. Yeah. Unbelievable.

So, I think it's important to understand how I got to where I am today and here. So, I'm heavily involved in doing financial literacy throughout Merrimack Valley, which is where I'm from.

And it all started by, believe it or not, attending a nonprofit event. Just like all of you who attend nonprofit events, they tell you how great they are.

They tell you a sad story. You pull out the checkbook and start writing a check. Well, they were doing the exact same format.

And then all of a sudden they said, hey, congratulations. We're going to be expanding. And five hundred people of the most prominent people in our area stood up and started applauding.

And all of a sudden my banking brain kicked in, and I said, well wait a minute. Although it's great that they are expanding, and there is definitely a need for this organization to expand, this is wrong.

So if these five hundred people in the room, if we could find the root cause, and focus on that, we don't have to expand this organization. So, in some regards, we should be trying to put this nonprofit out of business.

So, I went home that weekend, and I tried to find any and every study that I could find on poverty. And every single study I read, which was kind of disconcerting, there's so many of these studies that keep just saying the same thing.

The cause of poverty in America comes basically down to four things. Drug use, medical bills, loss of a job, and lack of financial literacy. Now, if we go across the seas, then you also include war and you include famine.

So, that Monday, I went back and I said, you know what? I cannot prevent somebody from doing drugs, losing a job, having too many medical bills, but I can certainly teach my community financial literacy.

So I went to my boss, and I was very new to Eastern Bank at the time. And I said, what do we have as far as financial literacy? Do I have to write my own?

And they said no. We have Money Smarts. So my team, we created a strategy, and ever since then my branch has been very aggressively teaching financial literacy throughout the Merrimack Valley and the great City of Lowell.

Right now about 40 percent of all the checking accounts that I open on a yearly basis, actually come from financial literacy. And I think your board will be very happy to know, about 10 percent of those are coming that are nonbank.

So, when Jeff and Heather called, it was just a natural fit. Absolutely, I want to be in the room. I want to have that discussion.

I want to see what we can do to help out. But, naturally, being a bank, we did have some concerns.

So, one of the concerns was the lack of financial literacy that these kids are going to have. If these kids are under 18 and the account goes bad in one way or another, how are we going to be able to collect on that account?

Just the pure maturity of the students. Lack of using the accounts after the summer. This was a big concern for me. And I'm happy that I was completely wrong.

I predicted that we were going to have a 95 percent closure rate. That an account was going to be opened up for the summer. We're going to do direct deposit.

Their job is over. And they're going to come in and close the account. And all of a sudden I have on my books a whole bunch of accounts that were just opened for a short period of time that closed out.

However, the other concern that I had was Eastern Bank does not have youth accounts. But, the great thing is, in Massachusetts we are governed under 1865 law. Which is very similar to your Safe Account.

So if you're 18 years or younger, it is a free account. If you're 65 years or older, it's a free account.

You can technically get an overdraft. Checking -- or the checks are free as well. So, we used that governance to be able to use this for this program.

At age four -- we will actually go all the way down to age 14 at Eastern Bank. But we do need to have a parent or a guardian sign.

So again, with the idea that no parents were going to be signing this, it created an enormous amount of trepidation with me going over and trying to open up these accounts.

At Eastern Bank we do -- we have no fee accounts. And we also have no inactivity fees.

Because that was my other concern that we would have, these kids open up the account.

They leave $1.75 in it. And it just sits there forever. Not very profitable for the bank obviously.

However, as Jeff talked about, all the accounts had direct deposits. We were issued, and they were -- all accounts weren't opted out.

And this is the part that I've very happy about. Over 50 percent of the accounts are still open, and aggressively still being used.

There was literally only one account that went bad. And believe it or not, it was a recurring gym membership. So I was glad the 16 year old is out there getting some exercise.

(Laughter.)

MR. DAUGHERTY: And again, the accounts are open. And they are definitely actively being used.

And looking through all the accounts, we actually have several accounts that have well over 27 hundred dollars in their checking and their savings accounts. And we're talking about 15, 16, 17 year old kids that have almost three thousand dollars.

Which is fantastic. Especially in the City of Lowell, where it's low income people that we're dealing with.

So, some of the key findings that we have, and I apologize for the key up there. During the account opening the youths asked some great questions.

And they really did. It was -- I've never been drilled so many times by young kids just walking in. But, how many ATMs do you have? Where are all your locations?

How much is this going to cost me to open? I've never received those questions before. And for the very first time, I have millennials coming into my branch.

I almost fell over. You're a millennial.

(Laughter.)

MR. DAUGHERTY: So, during the -- one

of the key findings that we also did have, is when you're dealing with a low income section of the demographics, unfortunately sometimes parents will take the information from their kids.

So you'll pull a check systems on a 15 year old kid, and they have six thousand dollars in charge offs. And so as a group, we decided that we are going to ignore that.

And we went ahead and opened up the account, knowing that the 15 year old kid has not already established three or four thousand dollars in charge offs. And again, it's -- proper safeguards are important for youth accounts. Direct deposit is a key.

Of course, renewing activity, opt out is a must. Ted, I couldn't agree more with you, financial literacy is purely the key. And again, they are incredibly confident coming into the branch and finally asking questions.

And with that, I'll turn it over.

MR. BROWN: Excellent. Good afternoon everyone. First I just want to thank

Luke and the FDIC team for inviting us to be a part of this conversation.

And also for being a thought leader, a thought partner as we embark on this work from several years ago. But the FDIC and Treasury and NCUA have all worked closely with us in this line of work. So, really appreciate the collaboration guys.

MR. REYNOLDS: Thank you.

MR. BROWN: So my name is Desmond Brown. I'm the Deputy Assistant Director for the Office of Community Affairs at the Bureau.

The Office of Community Affairs is the office that focuses on low income and under-served consumers. Primarily consumers who have limited access to affordable financial products and services to meet their needs.

Many of these consumers have low income. Many of these consumers are facing difficulty with credit invisibility, meaning that they might have thin or no credit files. And they're trying to borrow at affordable rates, trying to get into the financial services space.

So, our office collaborates with organizations across the country both inside of the government, state, federal, local governments, to work with them. We also work largely with nonprofit organizations. And if you think about the population that we serve, it's quite large.

And so how do we structure the work to really reach all of these different segments of the community? We do that in three areas.

First, we work to build capacity of organizations. Working with nonprofits. Working with municipal organizations. Really trying to get them to figure out the ways to integrate financial capability services into what they do. Many of the people we work with are experts in workforce development or experts in, you know, different things.

But they want to do this, but they don't know how to go about structuring financial capability in a way that's actually impactful and will last.

We also spend a good bit of our time focusing on advancing research. So looking at the field and figuring out what are some of the best practices that are taking place out there?

What are some of the innovative programs and products that are taking place? For example, credit builder loans are one of the issues that we looked at to explore how they can help people improve their credit ratings.

And we share those learnings from opinions and from research papers with the general public. I think part of our work is to get more people to start talking about these issues across the spectrum, whether they're in government or nonprofits, or whatever.

If they're working with this population segment, we really want them to be able to understand how financial capability works. And how to get it integrated more efficiently.

And finally, the third bucket, or circle around expanding inclusion, really looks at barriers to access to financial services. What are some of the challenges that are keeping individuals from accessing and using affordable products to meet their needs?

And I think when we think about these three different buckets, you know, one of the populations that jumps to mind, is young adults. And the population that we focus on are squarely in the 16 to 24 year age range.

So, many of these individuals are head of households. Many of them are parents. Many of them are what they used to call disconnected young people, meaning that they're out of school and out of work. And so they have a unique set of challenges.

They have a unique set of challenges in identifying, you know, many of them, like we're hearing, are -- have difficulty really going into financial institutions and working with financial institutions. They have all kinds of misconceptions about what's available.

And so, the way we approach this work is to go to a place where we know these young people are. Many of them are trying to find employment.

And the workforce programs provide a really unique opportunity to engage with these young folks. And figure out ways to empower the workforce programs to provide these financial capability services to these young people.

So, in 2015 we collaborated with the Department of Labor. We partnered with the Department of Labor.

We worked with Prosperity Now, America Saves, and several other organizations outside of government to launch this initiative that we called, cleverly called, YES, Youth Employment Success Initiative.

And the idea was to do a couple of things. One to learn from workforce programs about what are the challenges that they are encountering as they try to prepare their young people to go out into the workforce?

If you can imagine a 16 year old young person who is getting a job for the first time, but that person doesn't understand banking. They don't understand credit. They don't understand taxes. They don't understand what to do with their paycheck.

You know, how are you really preparing this person for success if you're training them for an employment situation, putting them in a job. It's almost like giving someone a car without, you know, a driver's license, or the ability to drive.

And so that's the kind of theory behind what we were trying to do. So, we wanted to learn from these communities. Share some best practices with them.

Build up their capacity so they could do this work better. And then take that learning back to the Bureau and then share it with a broader segment of the population.

So, we worked with 23 communities. What we quickly learned is that 23 was a large number.

(Laughter.)

MR. BROWN: I'm sorry, 24. But we quickly learned that that was too many. So we drilled down and really focused on five of the communities with the contracting work that we were doing with Prosperity Now.

And really work with those communities really closely to find out, what exactly are the things they need to integrate these services? What are the challenges that they're facing with banking access?

You know, this is a great collaboration that you guys are doing in Lowell. But, it doesn't always work that way in some communities around the country. Some communities, there are differences in access to financial services.

So, one of the things that I heard today was that there's financial literacy. But there's also, how can a young person become more confident, more capable, and feeling more empowered to utilize the available resources and services that are out there?

Our frame of reference is really to look at building knowledge, providing an opportunity for someone to develop their skills, and really working on access to financial services.

And that's the way we've structured our program from the beginning. That we wanted to hit each of these buckets.

So they needed to be products that meet the unique needs of this diverse population of people. It couldn't be a cookie cutter product.

But we also wanted to create a space where the workforce programs can actually help the young people practice these new skills that they're learning around money management.

So, that all being said, you know, we sit here in D.C., and we launch this program in these communities around the country. And what we quickly realized is that we needed to go out and talk to them.

We need to go out and talk to not only the young people who are going through these programs, but also the operators. Because without the operators buying into the program and buying into this idea of the value of financial capability, meaning that if they prepare their young workers, they're much more likely to be successful.

We also needed to understand what the operators cared about. And for the WIOA funded programs, one of the things they cared about was job retention, income gains, and so on.

And so, they were naturally interested in learning about ways that they can continue the success of the training that they've provided.

A couple of things that we've learned from talking to these young people and the people that work with them, is that they were looking for an unbiased, free financial education resources that were specifically designed for young people in that age range, 16 to 24.

The materials had to be designed in a way that -- the way that these young folks learn. It has to be written in ways that they speak.

And it has to be fresh and kind of engaging. Which is a challenge sometimes for us regulators as we put information out there that is, you know, by the book.

But, it's not meant for a 16 or 17 year old person. So, how do you -- how do you be correct and meet all your regulatory requirements, but at the same time put it in a way that they can understand it?

So those are some of the challenges and things that we've learned. We've also learned that the information has to be age appropriate. So, it might not be the best thing to start talking about retirement to a 16 year old.

(Laughter.)

MR. BROWN: You know, that being said, one of the topics that came up from these interactions was that, you know, they really want to talk about credit, savings, you know, debt, all of these things. These things are real to a lot of these young people.

You know, they have identity issues where their identity has been used by others. They're saving for helping around their families.

But they also want to -- they also have aspirations. You know, many of them want to rent an apartment. Many of them want to purchase a car.

And so what we've learned is to figure out ways to back into the financial capability learning without being overly prescriptive in terms of the way we give that information out.

And one of the things that we heard a lot about was, how do you help someone prepare for their first apartment? How do you help someone prepare for the transportation to get to work?

And so, one of the things that we are planning to do was we go forward, is to structure our future in this area in ways that are linked to these young people's aspirations.

And at the same time support the workforce system. And at the same time drive the financial capability scales that we are trying to insert into these programs.

A couple of areas that we're going to be focusing on, transportation seems to be a good one. Because in many parts of the country, people are having a hard time getting to work.

And that caused them to peel off and

lose their jobs. Other parts, people are paying, you know, even within the population that we looked at, some of these young people are paying large amounts of money paying for a car share to get to work.

Or, you know, some people are purchasing cars that are not really affordable in terms of how much they're making. Even in the cities, you know, you live in New York City, but you work in Westchester County, how do you get there, because the public transportation systems aren't.

Basically the transportation to work and where you live don't always align very easily. So how do you help someone to plan, budget and save for those occurrences?

So, going forward there are a couple of things we're going to be focusing on. Obviously transaction accounts will continue to be a big part of our work.

Helping these young people to, you know, and the folks that they work with, to figure out ways to get access to accounts that are friendly to use in the FDIC's model.

To continue to promote that. And create linkages and partnerships like this great one in Lowell.

We're also focused on credit. That continues to be a big issue for young people in this population range. As they try to get an apartment, purchase an automobile, or whatever they're going to do in their lives, credit is a big part.

So, we want to make sure that they understand credit. Figure out ways to build up their credit. And continue to have strong credit ratings going into their young adulthood.

Savings is another area that we will continue to stress. Because that's kind of the engine that protects people from, you know, borrowing at a higher rate if they come into an emergency.

And it's just a good habit to start at a young age to start thinking about. Maybe when they get into their 30s they could start talking about and thinking about retirement. But the habit of savings at a young age, will continue throughout their lives.

And then finally, helping them to manage their debt as they get into debt. Because that's part of, you know, making mistakes and correcting it in a young person's life.

This work, we've learned a great deal from this work over the last several years. Both working in collaboration with our partners at FDIC and others in the nonprofit sector.

And I think we will continue to learn. We will continue to work with the Department of Labor to share all of the great resources that we are collecting.

Part of what we are doing is assembling all of these great -- this great information from this project. And pushing it out to the systems at the Department of Labor so we can empower workforce systems to really embrace financial capability as part of the way they do their work.

If we can get more of them to start

thinking about this not as a side thing, but as this is what's going to drive success for your program, helping your people succeed in the financial marketplace will help you get better outcomes for your programs.

I think then we can see a win/win. Because many of them, you know, they want to do it, they just don't know how.

And I think that's what's great about the collaboration that we've had here. Is that we are teaching them how to do it.

And hopefully our research will show that, you know, it's actually having positive outcomes in terms of job retention.

Thank you for the opportunity.

MR. REYNOLDS: Thank you. Can we go to the next slide? So we invite your questions for us.

We have a few questions up on the screen that we'd certainly welcome your input on. How best we can continue?

But let's start with Robert, would you

like to ask the first question?

MEMBER ANNIBALE: Just a -- and thank you. This is really interesting.

And you're touching on an age group, I mean, we've worked a lot more with some of our colleagues here they -- and others on youth, on a much younger group. And on-boarding, you know, thousands of kindergartners and others.

But, we've done that in a way because of the -- and with San Francisco, their decision to have a universal program, it meant taking every child at five years old. So documentation and parents were challenges obviously. Right?

So, instead it's actually a large escrow structure basically. Think of it as a trust fund for everybody. Sub accounts.

How do you, when you get to teens -- and we have a different regulator day to day, as well as the FDIC. So, I'm most thinking of KYC and AML.

How do you open the accounts for somebody who's say 15, and would the CFPBs be on that too? Because they will be signing account opening documentation, right?

I mean, to the extent that you can enforce or not, it will be a youth without a parent signing it. For which the kids you're targeting may -- the parent maybe part of the challenge, not only the absence of a parent.

How did you approach that in terms of the getting past the documentation to open?

MR. DAUGHERTY: A lot of conversations behind closed doors that was above my pay grade, to be honest.

(Laughter.)

MR. DAUGHERTY: No, completely fair. But no, we -- our -- the amount of accounts that we opened were smaller. And so we weren't overly concerned about losing too much money on if these accounts go bad.

And so it was a signed off by the President of the bank. And we were just able to draw up the accounts and make the proper documentation.

MEMBER ANNIBALE: No. I mean, not

commercially I didn't mean to lose money on it or not.

MR. DAUGHERTY: Yeah.

MEMBER ANNIBALE: But, I meant from a legal perspective. If you want to scale this and you open accounts for young people who can open them, using, as you're saying, without consent, without parental consent or any guardian consent.

And without full documentation, right, of some kind. Many of them don't have a driver's license or a passport or -- how did you manage that?

Or did you just sort of stay below the radar while you're doing the pilot?

MR. DAUGHERTY: That would -- that's a good question for our legal team.

(Laughter.)

MR. REYNOLDS: I just also point out the interagency youth saving --

MS. DONOVAN: Getting in trouble, right? Yeah. I see what you're doing. Okay.

MR. REYNOLDS: I'll also just point out the interagency youth savings guidance. It has a question specifically relating to -- a couple of questions relating to customer identification.

And there's one specifically relating to the escrow type model account. And it's about half a page, or a quarter of a page. It really gets at who is the customer? Is it the young person the customer? Or is it organization?

So, and when these questions come up, our community affairs' staff can connect parties that have questions to experts who can work through them.

MEMBER ANNIBALE: That example draws very much from Jose and our program. Which was all the -- which was really drawn on the escrow account in many ways.

The other one is really -- and I'll leave it here with any of the lawyers and I'll just hear clients.

It becomes -- so we have to be thoughtful how to do that so we can do it and scale this. Commercially, risk is up to the bank, and minimal hopefully.

But that the youth, you know, the enforceability and the ability of the youth to go and contract on their own is something that we'd have to figure out.

MS. DONOVAN: May I just make a quick comment? All of our programs are workforce development programs, and you do have to complete an application.

So, if the young person is under 18, it does require parental signature. So, from that standpoint, we include everything about our program, and they sign off that that young person is able to participate in all aspects of the program. Including enrolling in a financial institution.

MEMBER ANNIBALE: Oh. Okay, that helps.

MEMBER LEVERE: So thank you. That was fabulous. I just want to give a shout out to Eastern Bank.

The other award they just won is the ABA's Financial Inclusion Award. For an extraordinary program they have on diversity, equity, and inclusion around building business of color.

So, I want to follow on Bob's point. Because one of the biggest policy issues that has come out of our work on YES, as well as another youth financial capability fund that we're doing with Citi right now, is the issue of noncustodial youth accounts.

And the issues that you just described, Tom, in terms of looking up on check systems and seeing that they've taken out an account in this child's name, and all that -- those issues are ripe all throughout the systems.

And I think this is one of the big policy issues that together if we could, you know, I've been going bank by bank, talking to banks about how to do this. Because, it really is critical to making this whole initiative, which makes enormous sense.

And it's an incredible platform to build financial capability, savings, and all the things we want. But we have to solve exactly the problem you said, Bob, so the banks feel safe with that.

The other point I just want to raise more broadly, which we've seen is, how do we, and Heather your point would be really interesting, the culture of workforce organizations and workforce development, is, in many cases, completely absent any of this work.

And that's an incredible opportunity for all of us working together. And that's been a huge part of YES, as well as other work.

And how do we think about this, starting with the Department of Labor, right? Who is in many cases never thought about where do they go to cash that first paycheck? You know, the whole story we think about.

So, I just love any more reflections on that in your peers, as we think about how do we broaden this?

MS. DONOVAN: Sure. So, to be honest, the WIOA has made financial education mandatory.

MEMBER LEVERE: Right.

MS. DONOVAN: So, the Department of Labor has to recognize that it's mandatory. But how you deliver financial education is of course subject.

MEMBER LEVERE: Exactly.

MS. DONOVAN: So, I think in our area we've made a really large stand as to -- and I've spoken about this at the New York Fed as well in regards to like CRA and EON, how they connect to each other.

And we've made a big stand on how important it is. And we've also adapted it to adult population in our career center as well.

And we've certified five people as educators in personal finance to really take it to the next level. So, we've made it a mission of ours.

How we make that a mission of the Department of Labor in general, is not up to me. But, they -- they're aware that I'm here today speaking about this.

(Laughter.)

MEMBER LEVERE: Well, that will change everything.

(Laughter.)

MS. DONOVAN: But, we were talking about this at lunch as well, it's really about the directors and the state workforce boards coming together and recognizing a standard for financial education across the state.

Which I think is doable. We all just rebranded ourselves under one name. So, anywhere you go in Massachusetts you're going to go to a Mass Hire either workforce board or career center.

So, everyone has the same name. It's just your area is different. So, we are working towards that similarities across our state.

How you move that outside of our state, I think is -- I don't know the answer to that.

We did just have Pennsylvania Rapid Response Team in to learn about how we do our wraparound services. Because that's a big part of what we do.

Is we provide supplemental services. We have a social worker and things like that. So, we're able to really fully encompass.

And we're hoping that if we're successful, and we've just started this, that we'll be able to do what we did here. Where we can share our success.

And that will start the conversation as to how we make that bigger.

MR. REYNOLDS: Ted?

MEMBER BECK: Obviously, I like what you're doing. And I appreciate you using financial capability as a description.

Because financial literacy is a term that I've been trying to get rid of for ten years. Financial capability is a much better label.

But, I wanted -- you started to talk about what I think is a really key thing. And a really key thing I think for the committee that maybe we could be of assistance. And that's tone at the top.

Because Doc, you convinced your bank to

do this.

MR. DAUGHERTY: Um-hum.

MEMBER BECK: Heather, you talked about how do you get more people saying this is a priority. Tell me about the tone at the top? And the support that you got to make this happen in Lowell, and hopefully across the entire network for the bank.

But the, how critical is that support to have this just not be a flavor of the month?

MR. DAUGHERTY: I think it's overly critical. We did it as just a small test pilot. We did it for two years.

We did not do it this year just from a staffing perspective. We are analyzing all the accounts to make sure that they are going to be profitable and a concept we do want to alter in the future.

So at the moment for Eastern Bank itself, it's a very, very small test pilot. But to be able to roll it out, you would need to have everyone's buy in from -- throughout the entire bank and all the banks.

MS. DONOVAN: Right. We also did have nine separate institutions agree to the same exact thing.

So, while Doc is here with me, he's fantastic, we also had eight other institutions who were onboard the same exact way that Doc and his bank were. And who continue to be on our financial capability council that we conduct at the workforce office.

MEMBER BECK: Thanks.

MR. REYNOLDS: I guess we'll go back around.

MEMBER BARRERA: So, well congratulations because the work you're doing makes you a light blue.

(Laughter.)

MEMBER BARRERA: And then my question is, how about, you know, they've got their paycheck and -- you know, their job and their paycheck, but who's -- where's the training coming along about taxes? Reporting their annual taxes?

MS. DONOVAN: I cannot figure this thing out. Sorry. So, we do -- along with the financial education training, we do an extensive soft skills work readiness training for all of our programs.

It ranges in hours from 15 to 100 depending on who we're working with. So, our young people who have disabilities get an amended curriculum for the entire school year.

And that includes more work then we're able to do in just a day, on taxes, when you need to report, how you read, where your money is going, what you want to put in, what you want to put out. We encourage savings, checking.

And then we do a lot of the goal setting work that we can't do in that one day, along the course of the work readiness. So that we're really combining the skills that you need for work.

But also the skills that you need for life. Which includes being capable and understanding what you do with your paycheck and how to read it, and when you need to advocate for yourself.

MEMBER CISNEROS: Hi. Congratulations everyone. Great work. In our -- at the city's financial empowerment coalition and the fund nonprofit organization we work through, we've administered summer jobs for youth and accounts for summer job for youth in nearly a dozen cities across the country.

In San Francisco, which is one of those cities, we connect seven thousand youth each year to summer jobs. And in early survey work, we found that fully half of the folks across all the cities we looked at -- started -- got their first paycheck without having a bank account, which is horrible.

So, we needed to do something about that. What I'm fascinated about is, and I understand Lowell's not the biggest city in the world, but I'm impressed by the number of financial institutions, and I'd love to learn more about them.

One of the things we struggle with is we found that to, Bob, your point, none of the major banks, and though there is a recent exciting development in that area, would open accounts for anyone under age 18.

Can you tell me about the list of folks that joined in Lowell? Were any of them the large banks?

MR. MANNING: No. They were all community banks of four billion. Well, actually at the time they were about eight billion.

So, eight billion to about four hundred million.

MEMBER CISNEROS: Okay. And credit --

MR. MANNING: They were invited.

MEMBER CISNEROS: No, of course.

MR. MANNING: Yeah.

MEMBER CISNEROS: Right. We -- and our great partners at the FDIC, we've convened the largest banks and all the others many times to try to get them to do this, with pretty much no success.

With the one exception that Bank of America has recently announced that their safe account is available to 16 and 17 year olds. Which is great.

MEMBER ANNIBALE: Without parents? Without a guardian or a parent?

MEMBER CISNEROS: Yeah. Yeah. Noncustodial. Yes. And believe me, I'm going to be bringing that to all my other large banks --

(Laughter.)

MEMBER CISNEROS: Very soon.

MEMBER ANNIBALE: Doc's 30 thousand is working.

MEMBER CISNEROS: Exactly. So, congratulations. That's great. It sounds to me though like even though these eight banks are working with you in your program, it's not clear these banks are making these accounts just generally publically available to under age 18 kids. Is that correct?

MR. MANNING: Some of the institutions that participated were credit unions. And they do.

MEMBER CISNEROS: Yes.

MR. MANNING: That's part of their --

MEMBER CISNEROS: Our heroes in this work have been credit unions too. So, we hear you.

MR. MANNING: And some of the other banks made exceptions. And are continuing to assess it, to give it further consideration going forward, that they may open it up to any and all.

MEMBER CISNEROS: That's great.

MR. MANNING: But I know there's a couple that still are having conversations.

MEMBER CISNEROS: Well, I just want to echo, I think we've heard over and over, which is, we just need to get all the banks there. Because we're not going to make enough progress until we do. Thank you.

MEMBER HENDERSON: It's a great program guys. Congratulations. And thanks for the very clear explanation about what you're doing. It sounded very exciting.

I'm curious about whether there is any interaction between the banks and your program and the school systems that are involved that are producing the students that you're drawing from?

But, I'm not suggesting that they need to be involved directly in the work. Because the truth is, the schools are already overburdened with programs that they can't effectively implement.

This is certainly not a program that should be incorporated in the schools. It's terrific that you all are taking it on.

But, I'm wondering whether the schools get any feedback from your experience with the students. And sort of helping the schools shape skills for the new economy going forward.

Are they advised about how the students are doing? Are there adjustments in the curriculum that schools are offering that could be complementary to the work that you're doing?

And have you had any recommendations in that regard?

MS. DONOVAN: Sure. So again, I think that we're lucky in Lowell. We are a city of about 110 thousand people.

We have a vocational school and a high school, and an alternative high school, and that is -- and then some Catholic schools. But that's pretty much, that's it. That's the only options you have.

And we are lucky to be located in the vocational school during the day. With the disability employment initiative program that we have, we work with their top young people.

And that's a program that is for after you have gotten your certificate of completion. You can stay into this school until you're 22.

So, we're in their day to day school there. We also have an after school program located at the same vocational school in which we teach these skills.

And we are in the alternative high school every week teaching life skills, financial skills, career skills. So, we're lucky to be incorporated on that level.

We have a memorandum of understanding with them. So, they can't kick us out even if they wanted to.

(Laughter.)

MS. DONOVAN: And then the high school, the public high school is, I think, the hardest to broach. They are so jammed packed with their schedules and things that they need to do.

But, we work really well with their guidance counselors and their administration staff. So, if they have somebody who comes into their college and career center that is in need of our services, we're a block way. And they just send them down.

So, I think we're lucky in that aspect. But, as to being able to get into the public school and really feet on the ground, we're always actively working on that on committees and things like that. But, we're not there yet.

MEMBER HENDERSON: Okay. Thank you.

MR. REYNOLDS: And there's one stream of federal funding for youth employment programs that go for out of school youth interestingly.

MEMBER HENDERSON: Is that right?

MR. REYNOLDS: Yes.

MEMBER HENDERSON: And you incorporate

that through the community college? Or do you do it somehow differently?

MR. REYNOLDS: The WIOA funding goes to the workforce development boards. But that's part of the formula. That the formula looks at how many youths are out of school.

MEMBER HENDERSON: I see. Okay. Thanks.

MEMBER MCCOY: Yes, thank you. I love the name YES. And I think the back story that you presented today was getting to YES. And it's really impressive.

I had two questions. And for Doc and Heather and Jeffrey, I'd be curious about maybe the top one or two challenges you had as you were getting to YES.

And then for Desmond, I was really intrigued with your talking about the issue of trying to take this to scale. And even to take it back from five up to the original 24.

And so, I'd love your thoughts on both.

MS. DONOVAN: Do you want to do that

first? Okay. And Jeff, would you like to talk about a challenge?

MR. MANNING: Sure. One of the challenges was trying to make it a true safe account. Not allowing overdrafts.

MEMBER MCCOY: Um-hum.

MR. MANNING: That took several hours of discussion. And I wouldn't say pleading, but it was trying to make it perfectly clear, these kids, you know, they're low income.

Some of them are already struggling. We didn't want to make it any harder for them, you know.

MEMBER MCCOY: Yeah.

MR. MANNING: It's tough to get through high school or through a day at school itself. But then to have an overdraft over your head at 17 or 18 years old, we just didn't want that to happen.

So again, between again, hours of discussion, the agreement was to not allow it. And to deal through the check system.

Those were probably the two largest

challenges that we had with the entire program.

MEMBER MCCOY: Okay.

MR. MANNING: To get everyone to buy in if you will.

MS. DONOVAN: And I think just it's funny to note that our first roundtable, we did bring credit unions and banks together in the same spot.

MEMBER MCCOY: Brave soul.

MS. DONOVAN: And the credit unions were like yes right away. And so then the bankers were like, yeah, we can do that.

(Laughter.)

MR. MANNING: And actually one of the nice features of the entire bank fair is when the banks and credit unions worked side by side trying to compete for accounts, was they all had the ability. And some said they couldn't do it. But I know they could, to open an account on their system with a zero balance.

It's a target. You can turn it on to make the account go live. Even though you can basically upload it with a zero balance, and it's a live account until that first check hits or the first deposit.

So, some said they couldn't do it. I asked them to go back and talk with their internal folks.

And they called me back and said, you know, you can. And I said yeah. I knew the answer when I asked the question.

(Laughter.)

MR. MANNING: It was one of those. So that was kind of -- that helped things along too.

MR. BROWN: So for us, I think, there -- I'll also answer your first question. There were a lot of challenges that we saw as we were working with these communities.

As I mentioned, starting with 20 we realized that the diversity in a workforce program is so complicated at the ground level. Funds are coming from the state.

Funds are coming from nonprofits. Funds are coming from local areas. Funds are coming from the federal government. Trying to figure out all of that.

And trying to build in the financial capability work on top of that, for many of these workforce programs required a lot of extra help. So that was one of the challenges that we recognized in scaling this.

The other challenge that we saw was just a difficulty and a level of lack of understanding about opening up accounts for both young people under 18, but also having accounts available for those who are over 18, but might not have a lot of funds coming into the account. That's also a challenge for many of these programs.

So, the workforce people, even though they want to do these things, sometimes it's hard for them to find partnerships. Lowell is a unique situation.

As we go forward, we want to make sure that that financial capability side of things can be structured in a way where it's a lot easier for the workforce programs not to have to think about how to create it. Because this is not their core work.

We want to make it a turnkey process. Where we meet the financial education and skill building needs of the young people. And at the same time make it easier for the administrators to implement the program.

We will continue to work with the FDIC and others to make, you know, more of these accounts, these safe accounts available. Because in a lot of cases, the programs are turning to payroll cards and prepaid cards. There's a level of complexity and fee structures around those programs that, you know, cause concern to some of the program providers.

So, at the end of the day, we really think that access to safe banking accounts and safe credit union accounts, you know, that's the way that we want to encourage these young people to move forward on. Because there are always going to be other products available.

We think that this is the best long term way to get them in the financial system that will work over time.

MR. DAUGHERTY: Yeah. And for me, just because I wanted to chime in real fast. For me it was the pull through. That was my biggest concern. I'm going to open up a whole bunch of accounts. Three months later we're going to just close them out.

And I don't have any statistics on this, but just knowing the City of Lowell and the Merrimack Valley as well as I do, I honestly believe that the majority of these kids, if they did not go through this program, would go into the nonbank section.

The reason is, because they are being taught by their parents on how they bank. And their parents don't know how to bank.

And so they're just teaching generation after generation after generation. So, having this program, you get the ah-ha moment.

Oh, now I understand. I don't have to be afraid of the bank. And they are able to ask all those tough questions that they were afraid to ask.

So, I don't think it's that they mistrust banks. Some of them they do. But I think a lot of it is just lack of knowledge.

They just don't understand because they're being taught that by their parents or they're being taught by the TV, of saying hey, put your check on this payday card. You don't have to stand in the bank line for three days.

And all of a sudden they're being learned by a commercial. So, I think this is a fantastic program.

MR. REYNOLDS: Alden?

MEMBER MCDONALD: Yes. I agree that your program is a very, very important program for all of us to move forward with. Not only the end bank, but the financial literacy part in our community.

You basically mentioned three partners that you need. And that was the Department of Labor, the workforce agencies, and banks.

Have you guys had any type of conversation, any type of strategic planning on how do you put the two, the Department of Labor and the workforce agencies together?

And if you had that, can the FDIC, who played a very important part of bringing the banks to the table, look like we can make that three-legged stool into four legs.

MR. REYNOLDS: I'll just start with the Department of Labor. The Department of Labor has really been a great collaborator with us in making their -- so for example, they facilitated us conducting webinars a number of times for their grantees.

Where we were able to on the Department of Labor facilitated webinar, explain Money Smart opportunity to connect. I think part of the challenge is the regulation requires financial education to be offered.

But how that is offered can range from a simple brochure to something more robust like we talked about here.

MEMBER MCDONALD: I guess I was thinking a little bit more aggressively. And that was the Department of Labor making it a policy for the funding.

MR. REYNOLDS: I see. Right.

MEMBER MCDONALD: To have the financial literacy up front. Because that's at the beginning of the issue.

So, if the Department of Labor and the Workforce Commission can somehow or another, make it part of the training. This is what you guys have done. You made it part of the training in order to enter the program.

So to me that appears to be a very easy lift in having that discussion and basically develop a strategy on how do we have that discussion.

As I said here, I just saw your solution for a number of items that we experience in the low income community, in the African American and even the Latino community. That's a big lift.

And if we can incorporate that into the

policy piece, that makes it. Because, on the banking side, I'm sure we could encourage the banks and school the banks that they can open an account for someone under 18.

Because most bankers will tell you, well the law won't permit us to open it. And they won't go further and say, without a guardian and things of that nature.

But, I think if we could begin educating the banks, that can happen. And I think it's a good entry point. And I see a lot of banks perhaps signing up on that.

MR. REYNOLDS: Thank you.

MR. MILLER: So we've reached the end of the program. Jelena McWilliams, I don't know if you have any final thoughts you want to share.

CHAIRMAN McWILLIAMS: I do. I do. I would be amiss if I didn't thank the panel and everybody on the Committee for a truly engaging and educational discussion today.

And I've learned so much from you that I'm grateful for today. And I'm proud of our staff for the work they've done in this area.

As I mentioned this morning, I don't take these issues lightly. And I think we can generally in society do better and do good.

And I tell my daughter all the time, when in doubt, do good. So, I will leave with that.

I know this issue is near and dear to Marty's heart as well. So, Marty if you would like to close, I would be honored to have you.

DIRECTOR GRUENBERG: Thank you Jelena. I want to thank the panel. This has really been a terrific discussion. And the whole program today has really been outstanding.

This Committee has been a huge asset for the FDIC. We've really benefitted greatly. And I think you've had an impact on this agency.

And more broadly, quite frankly, we've had a number -- any number of points today, people have talked about safe accounts as something that is now sort of part of the discussion around economic inclusion.

And the idea for safe accounts

originated with this Committee. So, the contribution has really been outstanding, and today's meeting has been a reflection of that.

And I want to conclude by saying that this Committee was actually started by my predecessor as Chairman Sheila Bair. And I had the privilege of continuing it when I was Chairman.

And I just want to say a word of thanks to our new Chairman, Jelena McWilliams for continuing this Committee and it's important work. It's part of the institution of the FDIC today, an important part of our mission.

And I think the meeting today just illustrates the value that it brings. So, thank you all. And we'll see you next time.

(Applause.)

(Whereupon, the above-entitled matter went off the record at 3:35 p.m.)