National League of Cities' Institute for Youth, Education, and Families

June 21, 2010

Advisory Committee on Economic Inclusion
Federal Deposit Insurance Corporation
SafeAccountTemplateComments@fdic.gov
550 17th Street, NW
Washington, DC 20429

Re: Public Comment on Templates for Safe, Low-cost Transactional and Basic Savings Accounts

Dear Advisory Committee on Economic Inclusion,

The National League of Cities' (NLC) Institute for Youth, Education and Families (YEF Institute) appreciates the opportunity to provide comments about the Advisory Committee on Economic Inclusion's templates for safe, low-cost transactional and basic savings accounts. NLC is the country's oldest and largest national organization representing the interests of 49 state municipal leagues and approximately 1,600 member cities. Since 2000, the YEF Institute has been the nation's leading source of information on, and support for, municipal efforts to improve outcomes for children, youth and families. As you may know, NLC has worked closely with city leaders over the past decade to connect residents to safe, mainstream financial products and other asset building services, including our multi-year *Bank On Cities Campaign*. We have developed a solid understanding of the needs of local communities as they strive to develop safe, affordable products and programs that meet the needs of their financially underserved populations.

Low-to-moderate income individuals do not have traditional bank accounts for a variety of reasons and sometimes face multiple obstacles to entering the financial mainstream. It is essential to understand and consider these barriers when crafting a safe, appropriate product for the low-to-moderate income population. The FDIC's product template for transactional and savings account features for LMI consumers provides well-considered, sound recommendations for creating baseline products that meet the unique needs of the underserved population.

Specific Product Template Recommendations

NLC believes that the FDIC is taking some very important steps by developing these financial product templates. To ensure the success of these templates, NLC urges the

FDIC to consider some changes in order to create even more accessible and beneficial products for low-to-moderate income consumers. Our suggestions are outlined below:

- Decrease the opening balance deposit requirement for a transactional account from $10-25 to $5-10. Because LMI consumers often live paycheck-to-paycheck, any type of fee, including opening balance requirements, monthly minimum balance requirements, or monthly fees, can be an immediate barrier for many of these individuals. Promising practices from the Bank On Cities Campaign have shown that a lower fee is important to ensure that the lowest-income individuals can gain access to basic accounts.

- Similarly, it is important to provide a specific definition of "low fee" (monthly maintenance fee/service charge and checking account linked to savings or line of credit to cover overdrafts listed as being provided as "low fee"). Ideally low fee would entail not more than a $10 charge. Leaving this open to interpretation by financial institutions could result in fees that are not affordable for the low-income market.

- Additional features or services that can serve the varied needs of underserved populations, as the FDIC has recommended (see "Other Financial Services Offered to Customers and Noncustomers" section), are important features to include in a model product. Low-to-moderate income individuals benefit from multiple financial products and services (aside from a simple transactional account), just as other financial consumers do. Providing access to additional products, such as money orders, remittances, and online bill pay, not only helps meet their unique financial service needs, but also provides more robust opportunities for this population to build and protect their assets. If possible, these additional services and products should be offered below the competitive market rate to reflect the limited income and expenditure reality of the LMI population. Several Bank On programs have been able to offer products like these at more accessible rates, such as Bank On Newark's free money order included in the program's baseline product.

Overall Comments

Lack of access to the financial mainstream makes it difficult for families and communities to thrive. Individuals who are un- or under-banked must operate in a cash economy, which means the few assets they do have are vulnerable to loss from theft or natural disaster. Neighborhoods also suffer from the consequences of a cash economy, which can erode public safety and increase theft and related crimes. Perhaps most importantly, financially underserved families miss out on opportunities to build assets when they do not have access to affordable, mainstream banking products. A transactional bank account can be a first step to ensure that individuals have some basic tools to keep their money safe, begin saving, and eventually graduate to more advanced products that will help them accumulate wealth and other assets. Developing a relationship with a "mainstream" banking institution is a way in which to grow assets and access credit more safely.

Because of the unique needs of underserved consumers, careful consideration should be given to the range of services and features that are part of the basic account. Research on this population, as well as anecdotal experience from financial access programs, have shown that for a variety of reasons they are drawn toward the most straightforward and simple financial products, even if they are more expensive. Many un- and under-banked individuals have had negative experiences with the hidden fees and other costs associated with having a bank account in the past. This is why the transparencies and ease of the check-cashing industry has made it so successful.

Lessons can be drawn from this body of research and experience. Un- and under-banked consumers could be well-served with products such as check-cashing and writing, money orders, international and domestic remittances, safe pre-paid cards, small-dollar loans, and other services offered at a low cost with no hidden fees. For example, in some instances, low-income families are not permitted to pay their rent each month with a check. In this case, money orders are the most sensible choice and should be available at a low cost. If check-writing is permitted as part of the basic account structure, the FDIC should consider conducting research about check writing behavior before establishing a cap on the number of checks permitted per month. While it is necessary for financial institutions to charge fees for some of these services in order to make a profit, fees can still be competitive with the alternative financial service industry while remaining affordable to low- and moderate-income consumers. More exploration of the costs associated with these services may be needed if the templates are to include suggestions for fees.

Some ways of minimizing the costs of offering these basic accounts for low- and moderate-income consumers is to increase the likelihood that these consumers will be successful account-holders. This can be achieved through partnerships with some of the financial access programs underway in many cities around the country through the Bank On model. By partnering with Bank On coalitions (city government and community organizations), the cost of marketing and outreach is reduced and also the likelihood of success is greater if customers are receiving financial education and other services through the financial access programs.

Many lessons can be learned from the cities and other entities that have established Bank On programs. In most of these cities, careful negotiation between financial institutions and city leaders have taken place to ensure that basic account features are safe and benefit both the consumer and the financial institution. Regional FDIC staff have been involved in some of these discussions and have offered valuable guidance to local communities. We would be happy to provide further guidance and information about some of these financial products and criteria to help inform the FDIC's sample templates.

Thank you in advance for providing us with the opportunity to comment on the templates for safe, low-cost transactional and basic savings accounts. If you have any questions concerning the views or recommendations we have expressed in this letter, please feel free to contact Heidi Goldberg at 202.626.3069; goldberg@nlc.org.

Sincerely,

Heidi Goldberg
Program Director
Early Childhood and Family Economic Success
National League of Cities
Institute for Youth, Education, and Families