CFSI Center for Financial Services Innovation
An Affiliate of ShoreBank Corporation

June 2, 2010

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
SafeAccountTemplateComments@fdic.gov

Re: FDIC Request for Public Comment on Proposed Templates for Safe, Low-Cost Transaction and Basic Savings Accounts for Low- and Moderate-Income Consumers

This letter is submitted on behalf of the Center for Financial Services Innovation (CFSI) in response to a FDIC request on May 7, 2010 for public comment on proposed templates for safe, low-cost transactional and savings accounts for low- and moderate-income consumers. This request is part of a larger FDIC effort to encourage insured financial institutions to make such products more widely available.

CFSI is a nonprofit affiliate of the ShoreBank Corporation. We are in our sixth year of providing national leadership, research, and insights on the financial services needs of underserved, underbanked consumers. We conduct consumer and industry research to develop a broad understanding of consumers in this segment and the products offered to them. We make investments in nonprofits and for profits serving underbanked consumers with financial products and services that are beneficial to consumers and sustainable for providers. And we develop and advance federal financial services policy to spur product innovation and market competition and to address impediments to high-quality financial services access.

We work with banks, credit unions, technology vendors, nonbank financial service providers, consumer advocates, and policymakers to forge relationships, products, strategies, and public policy to transform industry practice and the lives of underbanked consumers across the economic, geographic, and cultural spectrum. Our vision is to see a strong, robust, and competitive financial services marketplace, where the diversity of consumer transaction, savings, and credit needs are met with a range of providers offering clear and transparent products and services at reasonable prices.

We commend the FDIC, Chairman Bair, and Vice Chairman Gruenberg for their years of dedication to the needs of underbanked, undeserved individuals and communities. CFSI fully supports the FDIC's efforts to increase consumers' access to safe products and the spirit behind the proposed templates. We are concerned however that FDIC-prescribed templates, while intended as industry guideposts, could stymie product innovation and consumer access to needed transactional and savings products.

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Given its authority as a federal banking regulator, FDIC-established templates defining product terms and fees are likely to be viewed as regulator-defined *standards* and as applicable across the range of transactional and savings types. As described throughout our recommendations that follow, a variety of transactional and savings products exist and are emerging to meet the needs of the underbanked. Each type of product – whether offered by depositories or nonbanks – comes with unique features, costs, structures, and delivery channels, all of which affect price.

We believe an FDIC-established template detailing specific features, functions, and prices will send a strong signal that products differing from the templates will be viewed unfavorably by regulators. We believe this will inhibit both banks and nonbanks from offering these products, and it may discourage investors, technology firms, and a range of others from supporting and scaling up new and innovative products. Finally, defining prices – where in the marketplace prices on products like prepaid cards have been rapidly decreasing due to consumer demand, technology improvements, and competition – will in fact make it more difficult for providers to create products with distinctions that may benefit underbanked consumers in particular.

There are, nevertheless, critical policies and actions the FDIC can take to enhance competition, encourage innovation, and improve consumers' access to safe and reasonably-priced financial services. Below are our recommendations in light of the FDIC's goals to promote and encourage safe financial products and services.

CFSI Recommendation: Identify model products and services offered by banks and nonbanks, based on an assessment of the range of transaction and savings products used by underbanked consumers.

Over the past decade and in the past few years in particular the financial industry has experienced considerable change. While some of these developments have come at a high price for consumers – overdraft charges, account opening challenges, lack of transparency, to name a few – a variety of new products have emerged with unique and valuable benefits for lower income, underbanked consumers. Checkless checking accounts, for example, offer consumers a traditional bank account, but generally without the risk of overdraft. General purpose reloadable prepaid cards (prepaid cards) provide consumers with a transaction product that is easy to access and that provides a safe and convenient way to track and manage funds. Payroll cards provide unbanked workers a means to directly deposit their income and to conduct financial transactions with the safety and convenience of a card.

These products come with varying features, structures and underlying economics, although in general a depository institution holds the consumers' funds. Checkless checking accounts, offered by banks, rely on annual fees to sustain them. Payroll cards, distributed through the workplace, are issued by banks and sustainable because of the commercial relationships with employers and the interchange revenue generated when the cards are used. Prepaid cards, which

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typically involve multiple parties to manage, sell, process, and service the products, are sustainable due to interchange revenue and fees.[1] These considerations plus a number of other factors, including consumers' spending behavior, account balances, and use of affiliated products affect the products' underlying economics. These factors are critical to consider when developing policies and programs to expand safe financial products and services.

Given the range of different products and the variety of costs and structures associated with them, we recommend that the FDIC examine bank and nonbank products used by underbanked consumers and identify model products and services. Using insights from its underbanked survey indicating the products and services preferred by consumers, the FDIC could identify and describe successful product models that are satisfying transaction and savings needs in ways that are affordable to the consumer and sustainable for the provider. The research and models would provide a fuller picture of the underbanked marketplace and would help to create public policies that encourage innovation, enhance competition, and increase the number of safe and reasonably-priced financial products and services.

CFSI Recommendation: Identify models showcasing the different roles depositories can play in meeting consumers' transaction and savings needs.

Depending on their size, structure, and market niche, there are a number of roles that depositories can effectively play to address consumers' transaction and savings needs (as well as credit needs), which would benefit from recognition and study by regulators. In addition to providing and servicing transaction and savings products directly, depositories also can serve as wholesalers of products that are distributed through nonbank entities, nonprofits, and retail channels. They can help to enhance and grow the market by providing working capital to other financial firms distributing transaction and savings products, and they can scale up the number of good products by providing back office processing and other vendor services to firms that interface with consumers directly.

CFSI recommends the FDIC create models showcasing the many ways that depositories provide and support transaction and savings products.

As a regulator of depository institutions and a leading authority on underbanked consumers given the underbanked consumer and industry surveys, the FDIC is in a unique position to analyze the range of bank engagement in these products. This assessment would help to inform and advance public policies and programs to support, encourage, and scale up the number

[1] General purpose reloadable prepaid cards typically include at least three distinct firms to issue, distribute, and process the transactions that occur with the cards. The monies are held in a depository institution. Unlike traditional demand deposit accounts, prepaid card users typically carry very low balances, on average $100 at any given time, which prevent float revenue from serving as a substantial source of income. Instead, income stems from interchange revenue as the consumer transacts using the network-branded card and from fees.

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transaction and savings products offered to lower income, underbanked consumers. And, very importantly, it would send a powerful signal that regulators recognize and value the variety of ways that depositories can help to serve the needs of underbanked consumers.

CFSI Recommendation: Require FDIC pass-through insurance for general purpose reloadable prepaid cards.

Given the growing interest in and use of prepaid cards as an alternative to traditional bank accounts, further consumer protections are warranted, including major Regulation E protections by the Federal Reserve Board and FDIC insurance. We commend the FDIC for its recent decision to enable pass through insurance to individual prepaid card holders. CFSI believes however the time has come to make FDIC insurance mandatory for all general purpose reloadable prepaid cards. Underbanked consumers are using these products as de facto bank accounts. Consumers expect the products to have FDIC insurance, and the large providers occupying a significant share of the prepaid market have designed the products to ensure insurance coverage. Nevertheless, the lack of a mandate leaves consumers vulnerable to variations in coverage among products.

We recommend the FDIC require that general purpose prepaid cards be designed to ensure FDIC insurance to individual card holders.

CFSI Recommendation: Address the KYC challenges that make it difficult for immigrants and transient populations to access bank accounts.

A variety of factors hamper underbanked consumers' use of traditional bank accounts. These challenges are especially acute for individuals whose identities are hard to verify, whether they are migrant workers whose addresses change frequently or immigrants who lack traditional identification documents. In no small part, this is due to the Know Your Customer requirements under the USA PATRIOT Act, which require banks to verify the identities of customers in order to prevent money laundering and other illegal activities. While not intended as such, these requirements are hindering access to bank accounts for many underbanked consumers who lack the traditional forms of identification used by banks to open accounts.

To address the identification challenge while continuing to guard against money laundering and other risks, the FDIC in partnership with FINCEN could encourage banks to offer consumers whose identities are hard to verify a restricted account that could be opened with nontraditional identification materials, such as a foreign drivers license. The accounts would have certain controls, such as balance limits, requirements on where the funds can be accessed, and limits on how much money can be deposited or withdrawn in a given day. (These types of controls are typical in other transaction accounts, such as general purpose prepaid cards.) The customer would still be required to provide identification material, and the bank would continue to monitor the account for suspicious activity as it does for all accounts. However, a bank's inability to verify a certain aspect of the identifying information, such as a permanent address against a

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credit bureau database[2] or the validity of a foreign consulate ID card, would not necessarily prevent a customer from acquiring a bank account. Over time, banks would come to know their customers through observing transactions, and this knowledge would ultimately be used to provide the customer a passageway to traditional deposit accounts.[3]

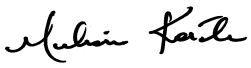
As a federal banking regulator with examination and supervision authority for almost 5,000 depositories, the FDIC is in a powerful position to work with FINCEN to craft an account with parameters that would protect against critical risks, while also providing passage to the banking mainstream for millions of underbanked consumers. As a first step, we suggest the FDIC design, test, and roll out a pilot to explore the concept with the goal of a national roll out in the future.

Conclusion

A variety of products exist in the marketplace today that are meeting underbanked consumers' needs and that are valued for the access, convenience, and safety afforded to them. The FDIC can further boost innovation of quality products by enacting public policies that support an active, competitive marketplace, ensuring basic consumer protections are applied to products, and recognizing the different products and providers that are meeting consumers' transaction and savings needs and preferences.

We want to thank the FDIC for its leadership in this endeavor. We value the opportunity to provide our insights and perspective, and we would be pleased to provide additional information.

Sincerely,



Melissa Koide
Policy Director

[2] A 2008 FDIC survey of banks shows that 87 percent of banks require a third-party screen before they will open a checking account. http://www.fdic.gov/unbankedsurveys/
[3] For more information about this policy proposal, see "Overcoming BSA Challenges to Account Opening: The Passageway Account," by Melissa Koide and Emily Gallagher at the Center for Financial Services Innovation.

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