NEW AMERICA
FOUNDATION

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Federal Deposit Insurance Corporation
FDIC Headquarters
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Re: Proposed Templates for Safe, Low-Cost Transactional and Basic Savings Accounts
Comments on the Basic Savings Account, informed by the AutoSave Pilot

Dear Members of the FDIC Advisory Committee on Economic Inclusion:

The Asset Building Program of the New America Foundation is pleased to submit comments in response to the May 7, 2010 FDIC Request for Public Comment about the Proposed Template for Safe, Low-Cost Basic Savings Accounts. We applaud and support the FDIC's interest in and commitment to addressing the needs of smaller dollar savers, a population encompassing Americans of various income levels.

For the past few years we have been engaged in a pilot designed to facilitate saving for flexible uses through payroll deductions in the workplace. Our experience with this pilot, called AutoSave, has generated a number of useful insights which we would like to share for consideration in the FDIC's proposed template for savings accounts. This comment letter begins with a short description of the AutoSave pilot, providing context for the subsequent remarks and recommendations in the following three topic areas:

- The AutoSave pilot's negotiation and use of affordable savings accounts
- Expected benefits of affordable savings accounts
- Guidance needed to support financial institutions' responsibility to fulfill Know Your Customer policy with respect to new small-dollar savers

**The AutoSave Pilot**

These comments are informed by real-world experience negotiating safe and low-cost account terms for the AutoSave Pilot. Co-led by the New America Foundation and MDRC,[1] the AutoSave pilot leverages the workplace setting and employers' existing payroll infrastructure to deliver a safe savings product to employees seeking a low-cost option for accruing emergency or non-restricted use funds. AutoSave

[1]The Asset Building Program of the New America Foundation develops research, policy and best practice ideas to support shorter-term flexible savings, long-term asset accumulation, and asset-building financial services for families with lower incomes and fewer resources. MDRC is a social policy research organization possessing substantial experience designing, implementing, and evaluating new approaches to improve the financial prospects of low-wage workers and their families.

accounts are structured to encourage regular saving, while not penalizing a saver who needs access to funds.

The AutoSave pilot has worked with six employers nationwide, each collaborating with a financial institution (four banks and two credit unions), to design and implement an AutoSave plan that: allows employees to open a savings account without leaving their workplace; streamlines the process of opening the account; and establishes regular, automatic deposits into it. Contributions are made with direct deposit transfers, from post-tax, take-home pay into AutoSave accounts. Workers have control of their savings and are able to withdraw money at any time without penalty. The entire enrollment process is designed to minimize or eliminate common barriers to participation — including inertia, indecision about how and how much to save, concerns about the safety or accessibility of funds, and time-consuming enrollment steps.

***AutoSave Account Principles and Terms***

The AutoSave team took an approach similar to the FDIC's Template by articulating a set of principles to guide the minimum account terms of the savings account. Our criteria also served as threshold criteria for interested financial institutions. Like the Template guidelines, the AutoSave criteria sought to preserve safety of deposits by requiring federal insurance for accounts, and required that financial institutions lower barriers to account opening and ongoing use.

*Core Account Principles*

The underlying AutoSave account principles were to (1) encourage regular, automated small-dollar saving deposits; (2) protect the account as much as possible from being depleted by fees, overdrafts, and everyday purchases; (3) and make funds readily accessible when needed.

*Account Terms*

The AutoSave pilot negotiated better account terms than those normally available to retail (walk-in) bank customers — particularly those without significant assets — and sought to generate take-up among individuals who underutilize mainstream banking services. Among the account terms were:

- Individually owned by the employee (and thus portable from employer to employer);
- A minimum balance to maintain that does not exceed $5;
- A minimum amount to open the AutoSave account that does not exceed $5 or the amount of the routine AutoSave deposit (usually $25); and,
- Access to funds via teller and ATM with an ATM card (prohibiting point-of-sale transactions with the ATM card).

Each of the participating financial institutions made exceptions to its standard terms and procedures to meet (or come close enough to) the AutoSave preferred account features. The features that required the most negotiation and most likely disqualified a prospective financial institution from participating were the low or no minimum opening deposit requirements, fees, and ongoing minimum balance requirements.[2]

[2] That significant negotiation was required to adjust account terms to meet the AutoSave core criteria suggests that these reasonable terms would not have been made available to customers without an intermediary playing a negotiating role.

Recommendation for Account Terms

1) In regard to key product features and associated fees for basic savings accounts targeted for the underserved population, we urge the FDIC to consider the importance of working with banks to keep these account balances positive — perhaps by requiring banks to tag small-dollar savings accounts so that at least initially, the systems do not process transactions that would send the customer's balance below a low threshold, such as $2. The institutional determinants of saving suggest that a degree of restrictions on access supports the accumulation of savings. For emergency-use savings accounts, the FDIC should prohibit access to the savings through point-of-sale transactions (e.g., permitting only branch teller or ATM access), and discourage that these savings accounts be linked to checking accounts for overdraft protection.

   Given our experience, we strongly recommend that the most customer-friendly product terms be made available to stand-alone savings accounts, regardless of whether they are linked with other transaction accounts. Financial institutions should not be allowed to limit the preferred account to customers who already hold banking relationships with the financial institution. For many new-to-banking customers, a savings account is a first product that is far more understandable, is safer and has greater utility than a transaction account, especially a traditional "free" checking account.

2) Account providers should uniformly relax the stringent application of ChexSystems to basic savings accounts. With a minimal amount of tweaking to existing account parameters, many customers currently excluded by ChexSystems could be served. According to the FDIC *Survey of Banks' Efforts to Serve the Unbanked and Underbanked*, 80 percent of banks require that a customer pass a third-party screening (generally by consulting the ChexSystems registry of accounts closed to mismanagement or inactivity) prior to opening a savings account.[3] The AutoSave account illustrates that it is indeed possible to design a stand-alone savings account that is low-risk to the financial institution and also high-value to the account holder.[4,5]

## Expected Benefits of Affordable Savings Accounts

*Benefits for Consumers*

After three months of piloting, between 10 and 25 percent of employees at most participating AutoSave workplaces are enrolled in a new, AutoSave account. Notably, AutoSave has encouraged new account and saving activity with little or no extra incentive, as most savings programs are inclined to do.[6]

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[3] "FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked." Dove Consulting, February 2009. http://www.fdic.gov/unbankedsurveys/unbankedstudy/FDICBankSurvey_Report.pdf

[4] Most participating financial institutions in the pilot allowed employees to open AutoSave accounts even if they had a history of past bank account mismanagement.

[5] This screening process often does not make distinctions about the type of account being opened, despite the very limited risk of potential loss associated with savings accounts. For AutoSave, all financial institutions consulted the registry for each applicant. Quite reasonably, recorded cases of fraud would disqualify applicants from opening an AutoSave account. However, most institutions offered more flexibility when it came to other types of account closures; most allowed an applicant to open an AutoSave account even if the applicant had previously closed an account (at a prior financial institution) holding a negative balance.

[6] After the first two years of $aveNYC, an innovative effort encouraging low-income tax filers to save at tax time by offering to match a portion of the individual's saving deposits, 16 percent of tax filers receiving a refund through

Combined with our focus group findings, the respectable take-up rates suggest that there is consumer demand for affordably-priced basic savings accounts.

*Benefits for Financial Institutions*

Participating financial institutions cited four principal reasons for improving the terms of their existing offerings to participate in AutoSave: the potential to open a large number of accounts through an employer savings program; the ability to open accounts that would receive regular direct deposits; the possibility of expanding employee banking relationships in the future; and the opportunity to establish a relationship with a new business or organization.

The Request for Comments notes that low-cost accounts could enable financial institutions to better reach low-and moderate-income consumers. It also should be noted — particularly in the case of savings accounts — that the accounts can be designed to minimize financial risk, and cost, to the financial institution.

Recommendation

1) The FDIC asks, "What are some ways of minimizing the costs of offering transactional and savings accounts with attractive features for LMI underserved consumers?"
We recommend the FDIC encourage banks to partner with workplaces or large interest groups who can offer the financial institution a sizeable number of new accounts, as the AutoSave effort has done. Such partnerships may be especially salient to financial institutions, as they require relatively low acquisition costs for a number of individual accounts that over time could lead to stronger ties with the bank, and eventually broader acquisition of services and products, hopefully increasing customer retention and minimizing the financial institution's operating costs per (savings) customer.

**Uneven Interpretation of Policy by Financial Institutions**

To date we have observed great variation in financial institutions' interpretations of procedures required to comply with the Know Your Customer provisions of the Bank Secrecy Act. Though we were able to achieve some consistency among product terms, the method by which institutions fulfilled the product *enrollment* and *customer acquisition* steps varied from one pilot partner to the other.

Recommendation

1) To minimize potential confusion that could deter financial institutions from participating in streamlined savings programs such as AutoSave, the FDIC (preferably in coordination with FINCEN and other regulators) should consider issuing clarifying guidelines for relevant regulations that may be unnecessarily complicating enrollment of small-dollar savers. It is possible to increase access to a traditionally underserved population without increasing the financial institution's risk exposure (to fraud, money laundering, or terrorism financing).

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direct deposit (eight percent of tax filers overall) had opened a $aveNYC account and initiated short-term use saving. Across three years of activity, the U.S. Savings Bond Pilot reported that eight percent of clients receiving at least a $50 refund through direct deposit at participating VITA sites took the opportunity to purchase a U.S. Savings Bond with a portion of their federal tax refund (no match provided). Sources: http://www.nyc.gov/html/ofe/downloads/pdf/ofe_progress_report_dec2009.pdf and http://www.d2dfund.org/our_work/building_savings/savings_bonds/savings_bond_overview

Clarification from the appropriate regulators would support the efforts of financial institutions who wish to increase access to safe banking options through streamlined means, but who currently lack the comfort and absolute clarity required to proceed with anything other than the most conservative interpretation of Know Your Customer.

**Summary**

To enhance the economic resiliency of households, it is imperative that households have access to products that help them weather unplanned economic shocks with flexible-use savings. As much as half of the US population would not be able to amass $2,000 within one month's time (i.e. to cover emergency expenses).[7] This reinforces the urgent need to fill the product gap for small-dollar savings. We commend the FDIC's effort to ensure that stand-alone deposit accounts are more affordable and more accessible for small-dollar savers.

On behalf of the AutoSave initiative, thank you for this opportunity to provide comments on the proposed savings account template. If you have any questions about the recommendations, please contact me by phone at 202-596-3357 or by email at lopez@newamerica.net. For more information about the AutoSave initiative, please contact me or my MDRC colleague, Caroline Schultz, at 212-340-8866 or by email at caroline.schultz@mdrc.org.

Sincerely,

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[7] Annamaria Lusardi, Daniel Schneider, and Peter Tufano. "Households at Risk: US Households' Capacity to Cope with Risk." Working Paper, 2010.