

Comments to FDIC
Proposed Templates for Safe, Low-Cost Transactional and Basic Savings Accounts

These comments were compiled from members of the South Texas AEI. These comments were collected from the membership to ensure that the FDIC received comments from our members. Some members chose to submit their comments directly to the mailbox.

It is noted that these are the views of select members and are not shared by the entire membership.

When looking at this issue, I cannot help but think about cell phones. There are so many plans, options, costs, fees, networks, paperwork no one reads, etc. when trying to pick the 'right' phone. It can be very difficult. Cricket came out with a very interesting concept, prepay and when the minutes run out, the phone stops working. There are some options, but not very many. The profitability Cricket seeks is based upon simplicity and quantity, not fees, extras and up-selling options. There are other companies creating phones for children that do not have numbers at all, but two or three buttons which are programmed numbers.

Bank accounts are similar: there are so many options out there that it is tough to get a good handle on all of the extras and limitations on accounts even when you understand the language that is used. Instead of approaching a savings or checking account as what you cannot do without incurring a fee, I feel the account needs to be simple enough to read "Savings account ABC does X, Y and Z; and nothing more is allowed". Set it up like Cricket -- No fees and no extras. Cannot go over your limit, pay for ordering checks, cannot use ATM's-- you have to go into the bank of choice to withdraw funds. I understand this is not as convenient, but this will create many more education moments and opportunities for people to ask questions. (People have no trouble going into a Cricket outlet to add minutes to their plan). By eliminating all of the extras and going back to a savings account or checking account at its simplest form we will have a product that will not be as profitable, but risk appropriate for this clientele that they can understand and work with.

So many of our clients have gotten caught up in the extras and things they do not understand that they run into trouble that puts their account negative and then they are in a downward spiral.

On the Basic Savings template, is "no amount" in reference to "no fee"? Since "no fees" is stated throughout the other templates, if this is what is meant by "no amount", I think it would be clearer to be consistent with the use of "no fee". If not, then "no amount" needs to be clarified.

Otherwise, I think the templates are clear and make this process easier to follow and understand. Great job!

***** It was the consensus of the group that the "no amount" referred to the "no minimum balance". However, since it confused a fairly sophisticated financial professional, it should be noted that this section should be clarified.***

My biggest concern is that many of the low income families in our area are immigrant families; many with no Social or ITIN number. If financial institutions really want to reach out to the unbanked, they need to make accounts, even if non-interest bearing accounts, available to these families. Another complaint that I hear from some families that do have accounts elsewhere, is

that account fees are not clearly explained to them, since most disclosures are in English. Other areas that need attention are:

1. Truly Free Checking Accounts: not something tied to direct deposit or minimum balance requirements.
2. The cost of overdrafts: perhaps a reduced cost or reversal of the first overdraft fee for clients.
3. Providing a checking account with only a debit card for those who have negative history on a checking account elsewhere; aka Second Chance Accounts.

I recommend more specificity in the Eligibility Section. A concrete example is the Consular Matricular card and other Central and South American ID cards or accepting paid invoices with an address. Should it not be clearer by what is meant by flexibility and latitude?

Two more basic service characteristics for transactional accounts could be free ID theft solutions and lower rates for credit products with auto deduct from another bank product.

Specific extra CRA credit should be implemented for all LMI products. Otherwise – it may not be implemented by a majority of financial institutions.

How does a financial institution determine LMI status on a walk-in customer to a branch? This would need to be defined. I have LMI branches – but not all customers are “LMI.” Copy of paycheck? Average balances? If goes above XXXX, then it converts to a “regular” account?

Transactional Account

Opening Balance – reasonable at \$10 – \$25.

Monthly minimum balance requirements \$1 reasonable (our account is currently \$1 on free checking account – but it will close after 3 months if it does not change due to the maintenance costs.)

Monthly maintenance fee / service charge: I believe there should be no fee (currently we have no monthly fees on the free checking account)

Total number of withdrawals

Checks: ability to write 7 checks per month. (currently ours is unlimited on the free checking account)

Electronic withdrawals: Yes, no fee (currently we have free online banking – no min/max)

Overdrafts are not permitted and NSF not assessed by institution: I could see a low fee for this such as \$5 for NSF, but not the normal fees.

Or

Checking account can be linked to a savings account or line of credit to cover overdrafts: Max at \$5 (if not enough money to cover overdraft in savings account OD would reject with fee)

Account can receive deposits via direct deposit: No Fee – banks should never charge for this, LMI or not.

Option to auto transfer to savings: No Fee – agreed.

Other Financial Services Offered to Customers and Noncustomers

Fees are typically high and getting higher. I would like to see fees discounted for customers. If you charge non-customers the "competitive market rate" they may convert to a customer to receive the discount. However, how would you know if they are LMI?

Savings Account

Eligibility: Would use the same as transactional account

Basic Characteristics:

Opening Balance: Would like to see this set at a low amount of \$5

Monthly Min Balance Requirement: \$1 (currently \$1 but it will close after 3 months if it does not change due to the maintenance costs – upon zero – account would auto close)

Monthly maintenance / fees – agreed at zero

Withdrawals: agreed

Deposits: No fees – agreed

Interest Bearing – same as regular checking

The three major underlying premises of account features serving LMI communities should be utility, predictability, and simplicity. Regarding utility, for example, customers often need to access funds immediately. They cannot wait 5 days for a paycheck to clear. The charges need to be totally predictable. A check casher offers clear fees per transaction. There are no surprises. These accounts should be the same. Finally, the accounts should be simple to understand and to manage.

Transaction Account:

The transaction account proposal largely meets those standards. The opening balance requirement is low, as is the monthly balance requirement, making it workable for people who use most of their income every month. It may be best to eliminate check-writing from this account, as that can create problems with overdrafts. It would be difficult to prohibit overdrafts, but offer check writing as part of the account. With electronic bill payment and point of service payment options, there is less of a need for people to write checks.

Accessibility to funds and a second chance feature are not addressed in the current transaction account template. It is not uncommon for people with a bank account to use a check casher because they need immediate access to funds. If direct deposit of paychecks is not possible (due to employer issues), there should be a process whereby customers can have immediate access to funds, perhaps with a 1% check-cashing type fee until a track record is established and the financial institution is comfortable providing immediate access to funds at no charge. A second chance feature, with no check-writing capabilities would also be helpful. The provision for electronic banking is helpful. One idea used by prepaid providers is to send text messages with balance information. This utility may be helpful for people to keep track of the amount of money in their accounts.

Savings Account:

The savings account and the provision in the transactions account to allow designated monthly transfers to savings are helpful. What the accounts are missing is an access to a short-term line of credit. One thought is to set a savings target--\$300 for example, and once that target is reached, it can be used as the basis of a secured loan at a low interest rate, with a minimum payment amount required per month, \$60, for example, that would be directly withdrawn from the transaction account. This would enable people to respond to emergency situations without depleting their savings.