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January 29, 2008

Ms. Leneta Gregorie  
Counsel  
Federal Deposit Insurance Corporation  
Room F-1064  
550 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429

**Re:** OMB No. 3064-NEW; National Survey on Banks' Efforts to Serve the Unbanked and Underbanked; 72 Federal Register 73346; December 27, 2007

Dear Ms. Gregorie,

The American Bankers Association<sup>1</sup> appreciates the opportunity to provide comments on the Federal Deposit Insurance Corporation's (FDIC) draft survey that would collect information on the efforts of insured depository institutions to meet the financial services needs of "unbanked" and "underbanked" persons within their communities. The proposed survey is required by Section 7 of the Deposit Insurance Reform Act Conforming Amendments of 2005 (Reform Act).<sup>2</sup> This statute requires the FDIC to conduct ongoing surveys of efforts by depository institutions to help unbanked consumers establish formal banking relationships.

### **ABA Position**

The ABA strongly supports initiatives that facilitate banks' ability to meet the financial needs of the residents of their communities. Products and services that are provided on a sustainable basis benefit banks and bank customers. Thus, we commend bankers and policymakers that have been working to transition unbanked consumers into users of mainstream financial products. We also support efforts to learn more about the cultural and other barriers that may discourage consumers from using the products and services that banks and savings associations provide.

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<sup>1</sup> The American Bankers Association brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than \$125 million in assets – represent over 95 percent of the industry's \$12.7 trillion in assets and employ over 2 million men and women.

<sup>2</sup> Pub. L. (109-173).

While we strongly support efforts to make the banking system more accessible, there are three aspects of the proposed survey that are of concern to the banking industry.

- First, we believe that the proposed survey puts the cart before the horse by focusing on banks' efforts to attract unbanked individuals without identifying first what the obstacles are that have kept these individuals out of the banking system.
- Second, we are concerned about how bank regulators will interpret and apply the survey results.
- Third, we request that specific survey questions, which in their current form could detract from the effort to bring more people into the financial mainstream, be clarified or deleted.

Below are our specific comments and questions.

## **I. Background**

### **A. Statutory Requirement**

The Reform Act requires the FDIC to conduct ongoing surveys “on efforts by insured depository institutions to bring those individuals and families who have rarely, if ever, held a checking account, savings account or other type of transaction or check cashing account at an insured depository institution into the conventional finance system.” The Reform Act further requires that the FDIC consider:

- The extent to which insured depository institutions promote financial education and financial literacy outreach;
- The financial education efforts that appear to be the most effective in bringing unbanked individuals and families into the conventional finance system;
- The efforts of insured institutions to convert unbanked money order, wire transfer, and international remittance customers into conventional account holders;
- The cultural, language, and identification issues as well as transaction costs that appear to prevent unbanked individuals from establishing accounts; and
- An estimate of the numerical and financial size of the unbanked market in the United States.

The Chairman of the FDIC is required to submit to Congress a bi-annual report that contains the survey's results as well as recommendations for legislative or administrative action.

## B. Proposed Survey

The FDIC has prepared a draft survey in order to comply with the Reform Act. The proposed survey would be conducted in two phases. The first would involve a questionnaire that would be distributed to 865 FDIC-insured institutions. The second phase would involve case studies of 20–25 FDIC-insured institutions that have employed innovative methods to serve unbanked and underbanked populations.

The draft questionnaire would collect information about 1) the efforts of depository institutions to meet the financial services needs of individuals who do not have a bank account (the unbanked); 2) individuals who have a deposit account but also rely on alternative, non-bank financial service providers for transaction or credit services (the underbanked); and 3) features and effectiveness of small-dollar programs offered by insured depository institutions.

## II. **Scope of the Proposed Survey**

We note at the outset that the proposed survey goes significantly beyond the statutory direction to study efforts of depository institutions to help unbanked customers establish a transaction account. While the information that would be obtained by the proposed survey could yield meaningful data in some instances, we have two primary concerns with the scope of the questions. First, the draft survey is directed solely at the efforts of banks to reach out to the unbanked. This focus misses what may be the more important question, namely, what is it that keeps unbanked consumers from establishing a bank account.

For instance, several of the survey questions imply that the presence or absence of certain product features is a significant factor in a consumer's decision to establish a banking relationship with an insured depository institution (e.g., whether an account has a minimum balance requirement). But not all consumers have the same attitudes about financial institutions. Some consumers may simply prefer to conduct their financial affairs on a cash basis. Others may be influenced by identification requirements for account opening, may have a general distrust of banks, or may want to ensure that their financial transactions remain completely private. Without understanding the factors that influence an individual's decisions, the value of data generated by survey questions about account characteristics may be limited.

This information is necessary in order to focus the survey questions on what banks are doing to address those problems that they can solve. If additional information about the perspective of unbanked consumers would enhance the FDIC's understanding of the challenges associated with reaching this market, we suggest that the draft questionnaire be postponed until such information can be obtained.

Second, ABA requests that the FDIC narrow the scope of the proposed survey to encompass only the elements specified in the Reform Act. Congress requires that the FDIC study the efforts of depository institutions to help unbanked consumers establish a transaction account. The draft survey, however, includes questions about credit products, such as small-dollar loans and consumer credit cards. While it may be of use to learn about the entry-level credit products offered by some institutions, we do not believe that this survey should be used to pose credit-related questions to the industry.

The ABA appreciates the FDIC's interest in stimulating the market for small dollar loans. ABA worked closely with the FDIC to identify institutions that were willing to participate in the FDIC's two-year small-dollar loan pilot project. We fully support the pilot project as an important way to explore how to promote small-dollar lending by depository institutions. As a result, we request that the FDIC delete questions VII and IX from the proposed survey and compile the results of the pilot project prior to requesting additional information from the industry about small-dollar lending.

Third, we are concerned that the expanded scope of the survey would increase the time and staff resources that an institution would be required to devote to completing the questionnaire with little certainty that meaningful data would be obtained. For instance, one ABA member with approximately \$20 billion in total assets estimates that it would need to involve five employees to assist in developing a response to the draft survey. This institution would need the assistance of three employees from the business units, the CRA officer, and the fair-lending officer. Smaller institutions, though devoting fewer employees to the completion of a questionnaire, would be at least comparably burdened given the resources they have to work with. Because regulatory burden for depository institutions is already at excessive levels, we request that the FDIC work to minimize the demands that the survey would have on depository institutions. This could be accomplished, in part, by deleting survey questions that do not fit within the five factors established in the Reform Act. We believe that this approach would also increase the number of institutions that elect to respond to the survey.

### **III. Results of the Survey**

The ABA understands that the surveys will serve as the foundation of the FDIC Chairman's bi-annual report to Congress, as required by the Reform Act. We request that the FDIC not use the survey data to mandate industry practices by establishing benchmarks or other expectations for how the industry should expand into new market segments. Our anecdotal experience is that flexibility is an essential ingredient in successful programs to bring more customers into the bank.

If the surveys are used to develop industry guidance or best practices, we are concerned that depository institutions would be expected to adopt those practices or face regulatory criticism. While it would be helpful for the industry to learn about the successes of other institutions in reaching out to unbanked markets, the ABA strongly believes that individual banks and savings associations best understand the nuances of their local markets and cultures and are in the best position to design successful programs, taking advantage of valuable information that may be generated by research conducted by the FDIC and other interested parties. Therefore, we ask that the FDIC not transform any published survey results into quasi-regulations that are published in the form of regulatory guidance, guidelines, or best practices. We also request that survey results and findings be shared with the industry so that we can apply any insights into our programs.

In order for the survey to provide maximum value to the industry, we also request that any published survey results discuss the demographics of the institutions that respond to the survey questionnaire. The presence and size of any unbanked market, as well as efforts to reach it, will likely vary by an institution's geographic location and asset size.

#### IV. Concerns about Specific Questions

##### A. Education and Outreach Questions.

1. Question II(A) inquires whether an institution “provide[s] financial education materials aimed at the unbanked and underbanked on the following topics.”

The ABA has two concerns with this question. First, the wording of this question is unclear. Are financial education “materials” limited to printed or electronic information that is distributed to consumers about the bank’s products? Or does the term “materials” also include the specific products that are designed for the unbanked or underbanked? For example, savings programs are included in the question’s list of possible kinds of financial education materials that an institution may provide. It is not clear whether the focus of the question is the savings programs or whether the focus of the question is the information about the savings programs that an institution distributes to consumers.

Second, educational materials that are designed for the unbanked may differ from those that are designed to reach the underbanked. If the FDIC includes efforts to reach the underbanked as part of this survey, we recommend that this question be split into two parts. The first could address financial education materials provided to the unbanked; the second could address financial education materials provided to the underbanked.

2. Question II(A)(2) instructs institutions to comment on the effectiveness of their financial education materials.

This question may produce confusing or incomplete results. It is unlikely that all institutions track whether financial education materials influenced a consumer to open a bank account. Further, whether outreach efforts are successful is a subjective measurement that may vary based on goals that were established by bank management. In addition, many effective education programs produce results that mature into success over lengthy periods of time, such as efforts to educate young children, who are unlikely to be near-term bank customers. Financial education of primary-aged children may prove to be the most successful means of bringing people into the financial mainstream, but a success unlikely to be identified by this survey.

3. Question II(B) inquires whether institutions provide financial literacy and education sessions. We request that the FDIC clarify three aspects of this question.

First, we request that the FDIC explain whether this question includes in-bank as well as off-site financial education training. We note that Question II(C) inquires about off-premise financial education outreach.

Second, we request that the FDIC clarify the meaning of the term “sessions.” It is unclear whether this term includes an unscheduled meeting between a bank officer and an applicant where credit counseling takes place or the features of a savings

program are discussed, or whether the term refers to formal, planned instructional time.

Third, it is unclear whether this question inquires about an institution's financial literacy efforts aimed at the unbanked, the underbanked, or all consumers. As a result, we request that the FDIC specify the kind of education sessions to which it refers. For example, a financial institution may answer "yes" to this question because it provides educational sessions about retirement accounts or other savings or investment vehicles. While these sessions would involve financial education, they would not be designed for unbanked consumers. Therefore, we believe that clarifying the scope of this question will produce more precise survey results.

#### B. Retail Branch Information and Services for Non-Customers

1. We are concerned that the survey will not capture and recognize the legitimate reasons for bank policies and practices that the survey apparently assumes discourages some consumers from opening bank accounts. For example, Question III(C) assumes that branch designs or décor might discourage some consumers from entering a bank. However, security features, which can vary from branch to branch, are frequently factored into branch designs. Some institutions have been criticized by law enforcement for making their branches too friendly in appearance.
2. Likewise, interpretations to the answers to Question IV(B) regarding the types of checks that an institution cashes for non-customers would be misleading without recognizing that there are legitimate reasons for limiting transactions with non-customers, including the significant potential for fraud. Furthermore, interpretations of the responses to questions about the type of identification required for non-customers to cash a check or the types of services that are available to non-customers might not reflect customer identification requirements and legitimate fraud concerns.

#### C. Account Opening and Onboarding Process for New Customers

1. Question V(A) inquires "how many new consumer checking accounts were opened by the bank during 2007." We do not believe that this question is relevant to a survey on reaching out to the unbanked. As a result, we request that it be deleted.
2. Other subsections of Question V inquire about an institution's account opening and customer identification processes. The draft survey appears to assume that certain bank practices might discourage consumers from opening an account. Yet, the survey does not inquire why the bank has established those practices. For example, there are many reasons that banks may not accept certain forms of identification from new customers, such as the potential for fraud or regulatory criticism. We believe that it is important that the rationale behind customer identification procedures and other bank practices be represented in any report that summarizes the survey results.

#### D. Deposit Products

Questions VI(A) through (C) ask whether banks offer “basic” or “entry level” checking accounts with no minimum balance requirements. We request that the FDIC clarify that these terms include free, full-service accounts. For many years, banks offered “basic bank accounts” with no or low monthly fees and limited transactions. However, many banks now offer free, full-service accounts that do not require a minimum balance. In order to avoid confusion, and possibly inaccurate survey results, we request that Question VI (A) be clarified to include free, full-service accounts.

#### E. Savings Accounts and Non-Customer Transactional Services

Question VII(A) inquires about the kinds of savings accounts that an institution offers as well as the interest rates that are paid on those accounts. Similarly, Question IV includes several questions about the check cashing and non-account transactional products (i.e., money orders, wire transfers, bill payment) that an institution provides to non-customers. These questions also inquire about the fees that an institution charges for these services.

ABA believes that inquiring about the variety of products that an institution provides could be of benefit to learning more about efforts to reach out to the unbanked. We do not, however, believe that it is relevant for this survey to include information about the interest rates and fees associated with these products. For example, it is unclear how the information regarding interest rates paid on savings accounts would be of use in a study that is intended to learn more about industry efforts to reach out to the unbanked. In recent decades, bank regulators have not regulated interest rates or fees on bank products, as such actions would interfere with safe and sound banking. It must be remembered that local market conditions are the most powerful determinant of rates and fees, and yet this national survey would draw this information out of its local context, only within which this information could possibly be meaningful. Moreover, these questions would add to the length and the time burden for depository institutions to complete the survey. Therefore, we request that these questions be revised.

#### F. Payment Products

Question VIII(B) asks whether a customer can get an “advance loan” on the funds from a deposited check or a regularly scheduled direct deposit. We request that this question clarify that an advance loan does not include overdrafts, except for overdraft lines of credit or agreements to transfer overdrafts to a credit card.

### V. **Conclusion**

The ABA appreciates the opportunity to comment on the FDIC’s draft questionnaire. We reiterate our request that the FDIC ensure that any questionnaire that is intended to gain a better understanding of what banks are doing to reach out to the unbanked and underbanked start from the perspective of identifying the hurdles that keep such individuals out of the banking system. In

this way, the questionnaire can focus on the relevant issue, namely, what banks are doing to address those things that are within their control. We also request that any report that is based on the survey responses be drafted carefully, so as not to create new expectations that supplant the judgments of bankers who are familiar with local markets and who are in the best position to determine how best to bring people into the financial mainstream.

Please contact Krista Shonk at 202-663-5547 or [kshonk@aba.com](mailto:kshonk@aba.com) with any questions about ABA's comments.

Sincerely,

A handwritten signature in cursive script that reads "Krista Shonk". The signature is written in black ink and is positioned below the word "Sincerely,".

Krista Shonk