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July 18, 2008

Ms. Leneta Gregorie  
Legal Division  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, D.C. 20429

**Re:** Agency Information Collection Activities: Proposed Information  
Collection; Comment Request; 73 Federal Register 28824; May 19, 2008

Dear Ms. Gregorie;

The American Bankers Association (ABA)<sup>1</sup> is pleased to provide comments on the Federal Deposit Insurance Corporation's (FDIC) draft survey that would collect data about U.S. households that do not have a bank account or a regular banking relationship with an insured depository institution.<sup>2</sup> The survey is intended to help the FDIC determine the size of the unbanked market as well as the reasons that these individuals do not use regulated, insured depository institutions to conduct their financial affairs.

The FDIC will partner with the U.S. Census Bureau in order to collect this information. The survey will be included as a supplement to the Census Bureau's monthly Current Population Survey in January 2009. The FDIC expects to incorporate the data generated by the survey into its bi-annual report to Congress regarding the unbanked and underbanked market in the United States.

## **I. ABA Position**

The ABA and its member banks strongly support initiatives that help banks meet the financial needs of their customers and their communities. Bringing more people into the financial mainstream benefits banks and bank customers alike, and we support efforts to provide more opportunities to more individuals on a safe, sound, and sustainable basis.

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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 \$13.3 trillion in assets and employ more than two million men and women.

<sup>2</sup> 73 Fed. Reg. 28824 (May 19, 2008).

The draft survey of U.S. households would be part of a broader initiative underway at the FDIC to study ways to expand access to banking services by underserved populations. Notably, the household survey would help to fill gaps in the FDIC's efforts to gather information about the unbanked market. Recent initiatives by the FDIC in this area have focused on banks' efforts to develop and market products to individuals without bank accounts. However, as stated in our previous comment letters to the FDIC, in order to generate truly meaningful information, it is necessary to talk to unbanked and underbanked persons in order to learn more about the cultural, social, regulatory, and other barriers that may discourage these individuals from using the products and services that banks and savings associations provide.<sup>3</sup> Therefore, we are pleased that the FDIC is planning to work with the Census Bureau in order to learn about what it is that keeps unbanked and underbanked consumers from opening a bank account. Information about the perspective of these consumers will help the industry and policymakers to understand what banks can realistically do to establish successful, long-term relationships with these consumers.

While the ABA supports the FDIC's efforts to hear from consumers directly, we respectfully question whether the survey in its current form will yield reliable, useful data.

Below are our specific comments on the draft survey.

## **II. Background**

### **A. Statutory Requirement**

The FDIC would conduct the survey of households pursuant to Section 7 of the Federal Deposit Insurance Reform Act Conforming Amendments of 2005 (Reform Act).<sup>4</sup> This law 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, a 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

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<sup>3</sup> Letter from the American Bankers Association, National Survey on Banks' Efforts to Serve the Unbanked and Underbanked (January 29, 2008). Letter from the American Bankers Association, Alliance for Economic Inclusion Occasional Qualitative Surveys (April 25, 2008).

<sup>4</sup> Pub. L. (109-173).

- 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 results of the surveys as well as recommendations for legislative or administrative action that is necessary to further economic inclusion initiatives.

## B. FDIC Initiatives

The FDIC has been a leader in promoting financial education programs and in supporting the efforts of depository institutions to develop banking relationships with an ever-widening circle of customers. The draft survey of U.S. households would be the latest in a series of information collections and other FDIC-sponsored projects that are designed to gather information about opportunities to reach unbanked and underbanked markets. Specifically, the FDIC is working to learn more about 1) why some people do not use insured depository institutions to conduct their financial transactions and 2) the efforts of banks to provide financial services to this group. Below is a summary of the FDIC's work in this area.

First, in late 2007, the FDIC, in conjunction with 30 participating depository institutions, launched a pilot program to study the feasibility and profitability of formal, small-dollar loan programs.<sup>5</sup> The purpose of the pilot program is to identify effective and replicable business practices to help banks incorporate affordable small-dollar loans into other, mainstream banking services. In May 2008, the FDIC began a series of information collections about each institution's experience with its trial small-dollar lending program. The FDIC will use this information collection to identify best practices for providing small-dollar loans.<sup>6</sup>

Second, in April 2008, the FDIC kicked off its first nationwide survey of banks' efforts to bring more people into the financial mainstream. This information collection, titled *Survey of Banks' Efforts to Serve the Unbanked and Underbanked* (the Unbanked Survey), is gathering data on what banks are doing to meet the financial services needs of persons who do not have an account relationship with an insured depository institution.<sup>7</sup>

The Unbanked Survey consists of two parts. The first phase is a questionnaire that was distributed to 865 depository institutions. The questions in this survey focus on banks' financial education and outreach strategies; deposit, payment and credit products offered to entry-level customers; and other related topics. The second phase will involve case studies of 20-25 FDIC-insured institutions that have employed innovative methods to serve people who have little or no formal account relationships with insured depository institutions.

Third, in February 2008, the FDIC proposed an additional information collection that would consist of occasional qualitative surveys that would be developed by members of local Alliance for Economic Inclusion (AEI) coalitions. The role of the FDIC would be to lend its

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<sup>5</sup> The 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 support the pilot project as an important way to explore sustainable ways to expand banks' markets.

<sup>6</sup> See <http://www.fdic.gov/small-dollarloans/>.

<sup>7</sup> See <http://www.fdic.gov/unbankedsurveys/>.

resources to administer the AEI survey. The FDIC does not plan to publish survey findings. Rather, all data from the surveys would be for the information and use of the AEI coalition.

In comment letters to the FDIC regarding these initiatives, the ABA explained that the Unbanked Survey and the AEI survey raise issues, including whether they are premature in light of the fact that the FDIC did not first talk to unbanked and underbanked consumers to determine what it is that keeps these consumers from establishing a bank account. As a result, these surveys are not designed to focus on those barriers to the banking system that are realistically within a bank's ability to address. For these reasons, the ABA believes that the proposed survey of U.S. households will be an essential component of the agency's efforts to obtain a true understanding of what banks can do to bring unbanked people into the banking system.

### C. Industry initiatives

The banking industry is actively searching for ways to expand the universe of bank customers. According to a 2008 poll conducted by the *American Banker*, 60 percent of bank executives reported that their institutions are either studying the unbanked market, are testing new products, or are actively marketing to this segment.<sup>8</sup> In recent years, banks have worked to identify ways to transition unbanked consumers into users of mainstream products and services. This is not a quick or an easy process because it is not always possible or appropriate to shoehorn individuals who have never had a bank account into a traditional banking product. As a result, the industry is working to develop financial services that 1) appeal to unbanked and underbanked consumers now; 2) that will help to transition these consumers into users of mainstream products and services in the future; and 3) that are profitable and sustainable for the institution.<sup>9</sup>

The data from the FDIC's household survey will enhance the many private sector initiatives that are underway to develop financial services for an ever-widening circle of consumers. We look forward to learning the results of the FDIC's surveys and working with the FDIC toward the common objective of expanding the opportunities to provide banking products and services in a sustainable way.

## III. **General Observations and Concerns**

We have a threshold concern with the phrasing and structure of the questionnaire. It is often observed that the answer to a question may depend in large part on how the question is asked. While we profess no expertise in the science of polling, we are concerned that the questions, in their current form, may yield results that paint an inaccurate picture.

For instance, questions 7a, 7b, 8a, 8b, 10a, and 10b are asked in such a way that a respondent may be steered unintentionally in the direction of criticizing banks when the respondent has not experienced the problems listed. By leading with all the possible reasons why a bank may have offended a potential customer, it seems possible that the responses will be skewed towards the negative.

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<sup>8</sup> *American Banker*/Greenwich Associates Executive Forum 1Q '08.

<sup>9</sup> Examples of such products include prepaid cards and payroll cards and low-limit credit cards that are underwritten using alternative credit scoring models.

We also question whether this proposed survey will be effective in eliciting meaningful information about reasons for remaining unbanked that are beyond a bank's control. While there are questions that provide the respondent with an opportunity to specify "other" reasons, it strikes us as possible that there may be more effective ways to draw out information that a respondent may feel uncomfortable providing.

The information that may be obtained through this survey is potentially very important in advancing the understanding of why individuals are unbanked and what banks can do to address those issues. Thus, we suggest that the FDIC consult, if it has not already, with experts in the field of polling to review whether there are more neutral, and thus presumably more reliable, ways to elicit the information sought. We offer these observations in the spirit of trying to maximize the utility of the survey.

#### **IV. Recommendations and Concerns Regarding Draft Questions**

##### **A. Financial Literacy**

The Reform Act instructs the FDIC to study the extent to which depository institutions promote financial education and financial literacy outreach as well as which educational efforts are the most effective in bringing the unbanked into the conventional finance system. The ABA requests that the FDIC include a series of questions to determine the attitudes of the unbanked toward financial education opportunities. These kinds of questions would help the FDIC to meet the financial literacy component of the Reform Act and would help insured depository institutions further refine their already extensive financial education programs and outreach efforts.

Possible questions could inquire whether the survey respondents would be interested in learning more about financial matters and, if so, how they would prefer to receive that information (i.e., an online video, an in-person course, a brochure, etc.). It would also be instructive to know whether these individuals would rather receive this information from a bank or a non-profit group.

##### **B. Preference for Cash**

Many consumers, particularly those that are unbanked or underbanked, prefer to use cash in order to pay for goods and services. A June 2008 study by the Center for Financial Services Innovation indicates that 51 percent of underbanked consumers that the group surveyed cited cash as the most frequent method that they used to pay for goods and services in the last 30 days.<sup>10</sup> It would be helpful for the FDIC to use the survey of households to explore why some consumers prefer to operate on a cash basis.

For example, do they find cash to be more convenient than checks or other payment mechanisms? Is it less costly? Are the unbanked uncomfortable with non-cash payment mechanisms? Have they simply always used cash to pay for products and services? Is it comforting to have cash in-hand? Where do they get their checks cashed? How much do they

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<sup>10</sup> The CFSI Underbanked Consumer Study, Underbanked Consumer Overview and Market Segments Fact Sheet, (June 8, 2008).

pay for this service? The answers to these types of questions would help depository institutions to adjust their products and marketing efforts to appeal to unbanked consumers.

### C. Payroll Cards

Questions 30 and 31 inquire about the use of payroll cards and other kinds of pre-paid products. While they are not traditional bank accounts, payroll cards enable consumers to conduct transactions in a way that is very similar to using a debit card that is tied to a conventional checking account. In many cases, these accounts can be used at automatic teller machines to withdraw cash, can be used at point-of-sale terminals, and, in some cases, are reloadable.

Data that the FDIC is able to generate regarding the number of unbanked consumers that receive payroll cards would be of value to the industry. However, including additional questions in this section of the questionnaire would make the information even more useful. For example, it would be instructive for the FDIC to explore what unbanked consumers like and dislike about payroll cards and other pre-paid products. Likewise, it would be helpful to know whether users of payroll cards tend to be interested in opening a checking or savings account after receiving payroll cards over a particular period of time.

The use of alternative transaction accounts, such as payroll cards, has grown dramatically in recent years, and we request that the FDIC note the expansion of this product in its report to Congress.

### D. Opening/Closing and Account

#### 1. Failure to Provide Check Cashing Services

Questions 7a, 7b, and 10a inquire about the reasons that a consumer does not have a bank account and why a consumer has closed an account. One possible response is: “the bank did not offer basic services..., like check cashing.”

Banks generally cash checks for their account holders when 1) the check is an “on us” check and 2) the check is drawn on another institution, as long as the customer’s account is in good standing, the customer does not have repeated overdrafts, and the customer does not present red flags for possible fraud. Because banks usually cash checks for their customers, we do not understand why consumers would cite failure to provide check cashing services as one of the reasons that they do not have a bank account. Therefore, we request that the FDIC delete this possible answer to these questions.

#### 2. Bank Service Charges

Questions 8a, 8b, 10a, and 10b also ask about the reasons that a consumer does not have a bank account. One possible response is that “the service charges of bank accounts are too high.” While it would be helpful to know the extent to which unbanked consumers believe this to be true, the survey questions do not probe the reasons behind this perception. Therefore, we ask that the FDIC inquire about the extent to which consumers without bank accounts shop for financial products based on price. If they do not shop on price, why is that the case? What other factors influence their financial decisions? Similarly, it would be instructive to know how much

money unbanked consumers spend on check cashing fees, money orders, and other financial products.

There is some evidence that cost is not the primary reason that some people choose not to have a bank account. The January 2008 GAO report, *Bank Fees* (GAO-08-281), found that the number of institutions that offered free checking accounts grew to 60 percent in 2006 from 30 percent in 2001. Moreover, average monthly fees decreased 25 percent during the same period.<sup>11</sup> Thus, it appears that reasons other than cost significantly influence the decisions of people without bank accounts.

In order to successfully reach unbanked markets, the industry needs to understand the cultural and social factors—not just the economic reasons—that drive the financial decisions of these consumers. Information that the FDIC is able to gather regarding the reasons underlying the choices of the unbanked would be of great interest to banks. Therefore, we recommend that the FDIC consider posing additional questions that probe matters such as why consumers trust check cashers more than banks, whether consumers feel that banks discriminate, whether they know what to do once inside a bank, whether they feel that their money is safe in a bank, or whether they feel that a bank will treat them unfairly.

#### E. Size of Unbanked Market and Other Demographic Data

The Reform Act mandates that the FDIC estimate the numerical and financial size of the unbanked market in the U.S. But the draft survey does not include questions that would help the FDIC to satisfy this requirement. Similarly, the survey questions would not collect demographic information such as the respondent's age, education, income, line of work, ethnicity, or how long he or she has resided in the country.

It is possible that this information would be gathered as part of the Census Bureau's standard, monthly Current Population Survey and therefore it is unnecessary to include this information in the FDIC's survey questions. Whether this is the case is unclear based on the background information included in the Federal Register. Therefore, we request that the FDIC either 1) clarify that these kinds of questions will be included as part of the regularly scheduled questions that census takers will ask or 2) incorporate demographic questions into the FDIC's supplementary questionnaire.

Demographic data and an estimate of the size of the unbanked and underbanked market would help bankers make good decisions as they design financial services and marketing materials for consumers that do not have a banking relationship. Collecting demographic information would also help the FDIC to satisfy one of the elements of the Reform Act.

## V. **Conclusion**

Thank you for the opportunity to comment on the FDIC's draft survey of households. We reiterate our appreciation of the FDIC and those individuals that work hard to bring ever more people into the financial mainstream where they can receive the benefits of useful financial products and services.

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<sup>11</sup> Page 15 of the report.

The information that the FDIC gathers from this survey has the potential to yield significant new data on the numbers and demographic characteristics of unbanked and underbanked households, as well as the barriers they perceive when deciding how and where to conduct financial transactions. The economic, cultural, social, and regulatory realities of why some people choose not to have a bank account are varied and complex. Therefore, we are pleased that the FDIC is working with the Census Bureau in order to fill gaps in the information that is available about those consumers that have elected not to establish a relationship with an insured depository institution. The information generated from this survey will help banks to refine their existing outreach efforts and to make informed product development and marketing decisions in the future. To further enhance the utility of the survey data, we request that the FDIC add more specific questions that inquire about the intangible reasons that some consumers prefer to use non-bank service providers.

Please contact the undersigned at 202-663-5547 or [kshonk@aba.com](mailto:kshonk@aba.com) should you have any questions about our comments.

Sincerely,

A handwritten signature in cursive script that reads "Krista Shonk". The signature is written in black ink and is positioned to the left of the typed name.

Krista Shonk