Minutes

of

The Meeting of the FDIC Advisory Committee on Economic Inclusion

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

June 24, 2010 - 8:49 A.M.

The meeting of the FDIC Advisory Committee on Economic Inclusion ("ComE-IN" or "Committee") was called to order by Sheila C. Bair, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation ("Corporation" or "FDIC").

The members of ComE-IN present at the meeting were: Ted Beck, President and Chief Executive Officer (CEO), National Endowment for Financial Education; Kelvin Boston, Executive Producer and Host of PBS' *Moneywise with Kelvin Boston*; Lawrence K. Fish, Former Chairman and CEO, Citizens Financial Group, Inc.; Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen AME Cathedral of New York; Ester R. Fuchs, Professor, School of International and Public Affairs, Columbia University; Alden J. McDonald, Jr., President and CEO, Liberty Bank and Trust, New Orleans, Louisiana; Bruce D. Murphy, Executive Vice President and President, Community Development Banking, KeyBank National Association; John W. Ryan, Executive Vice President, Conference of State Bank Supervisors; J. Michael Shepherd, President and CEO, Bank of the West and BancWest Corporation; and Robert K. Steel, Chairman of the Board of Trustees, The Aspen Institute. Committee Chairman Diana L. Taylor and Committee members Michael S. Barr, Assistant Secretary for Financial Institutions, Department of the Treasury; Martin Eakes, CEO, Self-Help/Center for Responsible Lending, Durham, North Carolina; Wade Henderson, President and CEO, Leadership Conference on Civil Rights, and Counselor to the Leadership Conference on Civil Rights Education Fund; Manuel Orozco, Senior Associate at the Inter-American Dialogue, and Senior Researcher, Institute for the Study of International Migration, Georgetown University;

Rebecca W. Rimel, President and CEO, The PEW Charitable Trusts; Peter Tufano, Sylvan C. Coleman Professor of Financial Management, Harvard Business School, and Senior Associate Dean for Planning and University Affairs; Elizabeth Warren, Leo Gottlieb Professor of Law, Harvard Law School; and Deborah C. Wright, Chairman and CEO, Carver Bancorp Inc., New York, New York, were absent from the meeting.

Members of the Corporation's Board of Directors present at the meeting were Sheila C. Bair, Chairman, Martin J. Gruenberg, Vice Chairman, and Thomas J. Curry, Director (Appointive). Michael W. Briggs, Acting Designated Federal Officer for the Committee and Supervisory Counsel, Consumer/Compliance Section, Corporate, Consumer, Insurance, and Legislation Branch, FDIC Legal Division, was also present at the meeting. Corporation staff who attended the meeting included Lisa D. Arquette, Heather L. Basnett, Valerie J. Best, Michelle M. Borzillo, Luke H. Brown, Leah E. Bullis, David W. Chapman, Glenn E. Cobb, Christine M. Davis, Nancy DelCastillo, Patricia B. Devoti, Sandra K. Fletcher, Ralph E. Frable, Janet R. Gordon, Leneta G. Gregorie, Tray Halverson, Sally J. Kearney, Ellen W. Lazar, Alan W. Levy, Rae-Ann Miller, Skip Miller, Barry A. Mills, Tariq A. Mirza, Robert Moss, Christopher J. Newbury, Janet V. Norcom, Yazmin E. Osaki, Sylvia H. Plunkett, Luke W. Reynolds, Sherrie Rhine, Barbara A. Ryan, Kimberly Stock, Eloy A. Villafranca, John F. Vogel, and Bucky Wells. William A. Rowe, III, from the Office of the Comptroller of the Currency also attended, as well as Charlotte M. Bahin, from the Office of Thrift Supervision.

Chairman Bair opened and presided at the meeting. She began by welcoming ComE-IN members, including in absentia, Ms. Rimel, the newest member of the Committee; congratulating Mr. Steel for his recent appointment as Deputy Mayor of Economic Development for New York City; and providing an overview of the meeting agenda. She then thanked Vice Chairman Gruenberg and Mr. Murphy for coordinating the previous day's meeting of the Strategic Planning Subcommittee ("Subcommittee") on the FDIC Small-Dollar Loan ("SDL") Pilot Program; noted that staff would shortly present the SDL Pilot results to Committee members, including the key features of a feasible, safe, and affordable small-dollar loan that is easily duplicated and does not require a major investment of funds or infrastructure; and indicated that she would like to hear Committee members' views on the pilot results as well as their recommendations for release of the findings. Chairman Bair concluded her opening remarks by expressing gratitude to pilot participants for their public service and commitment to their communities, many of whom she noted were present at an awards ceremony the previous evening and some of whom had stayed over to attend the Committee meeting.

Mr. Murphy, after adding his thanks to the bankers and institutions that participated in the SDL Pilot, expressed his pleasure with the outcome of the pilot and identified as presenters for the first panel discussion on the Subcommittee's meeting regarding the final results of the SDL Pilot and Case Studies Rae-Ann Miller, Special Advisor to the Director, FDIC Division of Insurance and Research; Lilia Escajeda, Public Relations Consultant, Amarillo National Bank, Amarillo, Texas; Cassandra Slade, Vice President, Community Development Officer, Lake Forest Bank & Trust, Lake Forest, Illinois; and Alden J. McDonald, Jr., Committee member and President & CEO, Liberty Bank, New Orleans, Louisiana.

Ms. Miller began by also thanking the pilot participants and Corporation staff who worked on the pilot. She then launched into an overview of the purpose, design, and size of the pilot, advising that its purpose was to determine whether banks can profitably offer SDLs as an alternative to high-cost credit products; that it ran for two years, from February 2008 to February 2010, starting with 31 banks and ending with 28 banks, operating in 27 states and ranging in size from approximately $28 million to $10 billion in assets; and that the Corporation had initially established general guidelines for the loans offered as part of the pilot, including loan amounts of $1,000 or less, interest rates of 36 percent or less, low or no origination fees, streamlined underwriting, and prompt processing of applications. Regarding loan amounts, however, she stated that bankers had determined that the loan maximum of $1,000 was not sufficient to meet the SDL needs of the target population, resulting in a shift during the second year of the pilot to track two types of loans, SDLs of $1,000 or less and nearly SDLs ("NSDLs") which ranged from over $1,000 up to $2,500.

Next summarizing the results of the *SDL* Pilot, Ms. Miller advised that, over the course of the pilot, participating banks made more than 34,000 loans, totaling approximately $40 million. With respect to SDLs, she indicated that the average loan amount was about $700; the loan terms ranged from 10 to 12 months, with an average interest rate of 13 to 16 percent; and, although delinquency rates ran about three and a half times higher than the industry average, charge-offs were generally comparable to those for unsecured loans to individuals. With respect to NSDLs, she indicated that the average loan amount was approximately $1700; the loan terms ranged from 14 to 16 months, with an average interest rate of 13 to 16 percent; and charge-off rates were 8.8 percent, comparable to rates for unsecured loans to the general population. She further noted that only about one-half of pilot banks charged an origination fee, but that, even when accounting for fees, none of the loans exceeded an APR of 36 percent.

Ms. Miller then enumerated lessons learned from the pilot, reiterating that loans made under the pilot were no less likely to default than those in the general population, and advising that bankers viewed SDLs and NSDLs primarily as a relationship-building tool. She identified as program elements associated with success long-term board and senior management support; having an engaged champion, preferably with lending and/or policy-making authority, who is excited about the product; and availability of a large population of low- and moderate-income ("LMI") individuals, military personnel, or immigrants, which tends to generate greater demand. She further identified as product elements associated with success loan repayment terms longer than a few pay periods and strong, but streamlined underwriting. Regarding the impact on program success of linked savings and financial education, Ms. Miller reported that the respective charge-off rates for programs that mandated or encouraged savings were 1.6 and 6.4 percent, compared to a charge-off rate of 11.4 percent for programs with no linked savings component, and that the charge-off rate for programs with a financial education component was 5.7 percent, compared to a charge-off rate of 12 percent for programs that did not feature a financial education component. She noted, however, that bankers were fairly evenly split on whether such features should be mandated, with some believing the features should be hard-wired into the loan products to break the cycle of reliance on high cost credit and others believing that such features unnecessarily complicate the loan process and act as a deterrent to borrowers. Concluding her presentation, Ms. Miller advised that best practices and lessons learned from the pilot resulted in the creation of a replicable template for safe, affordable, and feasible SDLs that the Corporation hopes will become a staple product for mainstream financial institutions.

Next, Ms. Escajeda provided background information on Amarillo National Bank, noting, among other characteristics, that it is a family-owned community bank in existence since 1892, with a main office, 12 branches, and 92 ATMs; that it has been offering SDLs since it first opened; and that, rather than focusing on immediate profit, it views SDLs as providing the basis for establishing long-term relationships with customers, offering an opportunity to cross-sell other bank services and products to them as well as their family and friends. As to how the bank interacts with its customers and the products and services it provides, she indicated that bank employees are engaged in the community, providing financial education, including the FDIC's *Money Smart* curriculum, in partnership with schools, not-for-profit organizations, churches, and workplaces; that the bank does not have an automated phone system, preferring the personal touch; that its branches are strategically placed throughout the city; and that its product line includes free checking accounts for all customers, free debit card access to accounts at the bank's ATMs, and on-line banking. With respect to the bank's participation in the SDL Pilot, Ms. Escajeda advised that her bank was responsible for $8 million of pilot loans, that the charge-off rate for those loans was about three percent, and that the purposes for the loans varied from paying off medical bills or other small debts to paying for vacations.

Ms. Slade then provided background information on Lake Forest Bank & Trust, advising that it is one of 15 banks in a holding company and that, although the core business of the bank was traditionally in a very high wealth area in the suburbs of Chicago, it had recently expanded its operations to a LMI area of northern Chicago. She further advised that, with a homeownership rate of just 36 percent, there are not very many customers for home loans in the northern section of Chicago, but that loans offered through the SDL pilot were responsive to a real need in the community, allowing customers to consolidate smaller bills and pay for medical bills, auto repairs, citizenship fees, and entry-level school fees. Ms. Slade reported that the bank's strategy was to form partnerships with local non-profit organizations, including a transitional housing shelter for a domestic violence program, and that, although senior bank officials had initially expressed skepticism regarding the viability of the SDL program, its success was such that the program is currently being rebranded and replicated in the other 14 banks in the holding company. Concluding her remarks, she stated that the charge-off rate for the SDL Pilot was in the range of nine to 10 percent which she indicated, at $5,000, was minimal and well below what was expected by the bank's senior management.

Beginning his presentation, Mr. McDonald advised that Liberty Bank was formed in 1972 and, prior to Hurricane Katrina, had about $300 million in assets and about 35,000 customers, many with impaired credit. He also advised that the bank's pre-Katrina business model was one based on high volume, low dollar transactions, including small loans from $500 to $1,000; that after Hurricane Katrina many of the bank's customers moved out of the area, giving rise to the need to identify a new customer base; that one strategy was to target the typical payday lender customer, with the aim of regaining the bank's pre-Katrina volume; and that the SDL Pilot fit perfectly with the bank's strategy. After noting that Liberty Bank made $250,000 in loans under the pilot, with the loans being used for auto repairs, deposits on new apartments, medical bills, and the like, Mr. McDonald said that included among the lessons learned by the bank were that most customers who need small loans need a loan larger than $500, that credit scores are not necessarily predictive of repayment ability, that lower income customers were more likely to repay their loans, and that marketing to payday lender customers is difficult and costly. He emphasized the importance of partnerships with community organizations and employers in reaching economies of scale for SDLs as well as the importance of identifying alternative revenue sources to offset the higher costs of providing such loans. Closing his remarks, Mr. McDonald noted the tremendous enthusiasm of pilot participants for the *SDL* program and congratulated FDIC staff for their work on the project.

Mr. Murphy, after noting that the presentations by Ms. Escajeda, Ms. Slade, and Mr. McDonald reflected the personal commitment expressed by all of the pilot participants to their communities and clients during the previous day's meeting of the Subcommittee, summarized some of the themes that emerged during that meeting. Among the themes he identified were the need to encourage partnerships, giving as examples the "Bank-On" campaigns in various cities and states around the country, the FDIC's Alliance for Economic Inclusion, and pooled funding models such as Baltimore's "Borrow and Save" program; the need to study the feasibility of creating loan guarantees through linked, low-cost deposits, such as the Illinois Micro Loan Program, or through loan loss reserves, such as those provided in connection with the Virginia State Employees Loan Program ("VSELP") and the Wilmington Trust/West End Neighborhood House; and the need to embrace new business models such as employer-based lending programs and employer-based platform providers, citing the VSELP and the United Way Working Bridges program as examples of the former and Employee Loan Solutions as an example of the latter.

A discussion then ensued, during which staff and Committee members addressed a variety of topics, including the differences in charge-off rates for the SDL Pilot as compared to the United Way Working Bridges program and the VSELP; the extent to which borrowers in the SDL Pilot migrated to other products and services offered by participating banks; and marketing efforts to raise awareness of the SDL program. With respect to the disparity in charge-off rates, Mr. Fish suggested that staff exercise care in how the pilot results are presented, noting that it is confusing to represent that charge-off rates for the SDL Pilot are comparable to those for the general population while, at the same time, presenting data for other SDL programs that show significantly lower charge-off rates; Professor Fuchs suggested that the United Way and VSELP programs reflected different target populations than the SDL Pilot data and that, rather than confusing the issue, it would be best to include their data in an appendix to any articles on the pilot results; and Mr. Boston suggested highlighting some of the more successful SDL Pilot programs, particularly those that generated a significant amount of new deposits. Regarding the extent to which borrowers migrated to other products offered by pilot institutions, Ms. Miller reported that approximately one-half of participants indicated that borrowers opened checking accounts, with Mitchell Bank indicating that 75 percent of its participants kept funds in their accounts after paying off their loans, in a few cases increasing their balances to five figures. Ms. Slade, offering another perspective, advised that applicants come into the bank for SDLs, but that during the application process, bank staff will determine that their needs are better met by a mortgage refinancing or home equity loan. As for marketing and next steps, Professor Fuchs and Mr. Boston emphasized the importance of more prominently connecting the SDL as a mechanism for getting consumers into the mainstream banking system to gain access to products that payday lenders and check cashers are unable to provide; Reverend Flake suggested that word of mouth is the best means of advertisement and that any marketing and outreach needs to engage organizations within the community that is being targeted; Mr. Ryan and Mr. McDonald suggested the need for continued discussion and information sharing among bankers, particularly the pilot participants, about effective programs and practices; and Vice Chairman Gruenberg, after noting that the pilot project had demonstrated the viability of SDLs and the genuine need and demand for such products, stated that it was the Corporation's intent to explore a variety of ways, including possible CRA incentives, to encourage more institutions to offer such programs. Mr. Steel asked whether there were any legal impediments to discussions among bankers on SDL products, pricing, and costs, in response to which Michael W. Briggs, Supervisory Counsel, Consumer/Compliance Section, Corporate, Consumer, Insurance, and Legislation Branch, FDIC Legal Division, advised that discussions among bankers about pricing of products could raise antitrust concerns, but that it is certainly permissible to share experiences with respect to any number of other related issues such as marketing successes and failures, reaching certain constituencies, and generally what works and what does not work.

Then, at Mr. Murphy's request, Ms. Miller briefly summarized some of the recommended incentives to encourage SDL programs, noting that possible incentives included CRA credit, an exemption or safe harbor from the Electronic Funds Transfer Act prohibition on requiring auto-payment on loans, loss sharing in the form of guarantees to offset loan losses, and using SDLs as an alternative product to fee-based overdrafts.

There then followed a brief discussion on the viability of SDL programs for larger banks. Mr. Murphy indicated that KeyBank planned to launch a program in the second quarter of 2011 in response to the needs of the bank's community and that it would be similar to, but not exactly replicate, the SDL template. Mr. Murphy suggested that one way to get the attention of larger institutions would be to include a reference to SDLs in Community Reinvestment Act ("CRA") regulations, and Mr. McDonald suggested that including some measure of what percentage of a bank's loans must be categorized as SDLs to obtain CRA credit would be meaningful for larger banks. Vice Chairman Gruenberg indicated, and Mr. McDonald agreed, that employer-based SDLs, because of the potential for scale, might make such loans very attractive to large institutions.

Then, on motion of Mr. Fish, seconded by Mr. Boston, the Committee unanimously recommended that the Corporation adopt the SDL template and recommended that the Corporation take steps, including publication of an article on the pilot results, to endorse the SDL program.

Mr. Murphy then announced that the meeting would briefly recess. Accordingly, at 10:44 a.m., the meeting stood in recess.

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The meeting reconvened at 11:02 a.m. that same day, at which time Mr. Murphy turned the meeting over to Ellen W. Lazar, Senior Advisor to the Chairman for Consumer Policy who, acting as moderator for the discussion on "Transactional and Savings Account Proposed Templates," introduced fellow panelists Barbara A. Ryan, Deputy to the Vice Chairman; Mr. Briggs; Ms. Miller; and Sherrie Rhine, Senior Economist, FDIC Division of Insurance and Research. Ms. Lazar then recalled that at the April 1 Committee meeting members discussed the potential benefits of safe, low-cost transactional and savings accounts for LMI consumers; listened to presentations about successful low-cost product offerings; and received recommendations for sample templates for such products developed by the Committee's strategic planning sessions, noting that the templates were based on certain guiding principles, namely that the accounts should have low and transparent fees, be FDIC-insured and subject to consumer protection laws, regulations, and guidelines, be simple to use, have easily understandable terms and conditions, and create sustainable product offerings for financial institutions. She further recalled that Committee members had unanimously recommended that the Corporation solicit public comment on the sample templates and reported that, on May 6, 2010, the templates were published for comment, resulting in receipt of 46 comments from a mix of financial institutions, state banking and community affairs departments, financial services industry and trade associations, consumer groups and nonprofit organizations, and private citizens.

Ms. Ryan then provided a brief overview of comments received on the transactional account templates, noting that there was broad support for the idea of low-cost accounts for LMI consumers; that a number of banks indicated they already offer similar products, with some banks sharing examples of their current offerings and a few state or local government agencies sharing examples of instances where they were successful in encouraging banks to offer such products; and that consumer groups supported the template concept, tempered with the caveat that the products must be carefully structured in a manner that addresses existing barriers, such as hidden and unexpected fees, to LMI account ownership. She next identified as common themes among the comments on the transactional account template the role of technology, with consumers and bankers agreeing, albeit for different reasons, on a preference for checkless, electronic accounts; the target population, with consumer groups and bankers agreeing that the template accounts should be available to all consumers, not just LMI consumers; the treatment of overdrafts, with consumer groups clear that overdraft features should be prohibited and industry groups indicating that such a prohibition would be problematic for accounts with check-writing capability and less problematic for accounts without such capability; inclusion of ancillary services, such as money orders, check cashing and on-line banking, with many commenters in favor of including such services as standard features as long as they were reasonably priced; minimum balances and fees, with consumer groups supporting lower balances and fees and industry groups, based in part on an assumption that the accounts would include check writing and paper statements, supporting higher balances and fees; and incentives, including CRA credit, and marketing, with commenters from most categories supporting CRA incentives and a number of comments suggesting that active marketing would be necessary to attract unbanked and underbanked customers.

Ms. Ryan identified two areas of concern raised by some commenters, mostly industry groups, with the first concern being that regulators would mandate the templates, thereby stifling innovation, rather than offer the templates as guidance, and the second concern being that the templates would require flexibility in account opening procedures beyond what is currently permitted by applicable rules. Addressing the first concern, she clarified that the templates are intended to be optional, not mandatory, and that the Corporation believes that offering products based on the templates would enhance competition between banks and nonbanks. Addressing the second concern, she stated that the Corporation's intent was to convey that current rules already provide for acceptable alternative forms of identification, such as Matricula Consular cards or Individual Taxpayer Identification Numbers (ITINs).

Concluding her overview, Ms. Ryan advised that staff had identified areas of common ground among commenters and developed a list of broad features that might be included in a revised transaction account template. Elaborating on the transaction account features on which there was general agreement, she listed them as a paperless, debit-based account with electronic delivery of services; direct deposit capability that would not be required; no overdrafts, which would go hand-in-hand with electronic delivery; universal availability, though the account would largely appeal to LMI and younger consumers and new Americans; clearly and succinctly stated eligibility criteria; a simple, clear, predictable, and affordable fee structure; and reasonably priced ancillary services, including money orders, check cashing with quick access to funds, money transfers, and free on-line banking.

Next, Ms. Miller briefly summarized comments received on the savings account template, noting that the goal of encouraging savings was shared by banks, community groups, and industry associations and that many of the comments on the savings account mirrored those offered with respect to the transaction account template, including assertions by a number of banks that they are already offering similar products; an expressed preference for discretionary, versus mandatory, guidance; and support for the use of technology to encourage direct deposit and automatic savings to reduce expenses. With respect to products currently being offered by banks, she noted that, when cited, balances required to open and maintain the accounts tended to be higher than what was envisioned in the original template and than the maximum balances recommended by consumer groups. She further noted that, as with the transaction account, there was evidence of some confusion regarding acceptable forms of identification for account opening purposes under current rules and regulations, and regarding eligibility for the accounts, specifically whether the accounts would be restricted to the target population or available to the general public.

In the area of product innovations, Ms. Miller advised that several commenters offered specific suggestions, such as lowering or waiving prices for other products or outright cash bonuses, to encourage consumers to keep money in the accounts, and specific suggestions for disincentives for taking money out of the accounts, such as limiting point of sale transactions or charging a small fee for withdrawals exceeding a certain predetermined number. She then recapped the areas of broad support among commenters, identifying them as indicating strong agreement that automated savings in general, and direct deposit in particular. are an effective way to build good savings habits for consumers and to reduce costs for banks; and agreement, when mentioned, that the savings accounts should be interest-bearing.

Ms. Lazar then stated that, based on comments received, staff had redrafted the transaction and savings account templates. She identified the common features of the revised transactional and savings account templates, noting that they would both be electronic card-based deposit accounts and available to all consumers, with low opening and minimum balance; have low, transparent and predictable fees; offer direct deposit; and provide paperless, electronic statements. After reiterating that the transaction account template would exclude overdrafts and that the savings account template would earn interest, she invited comments and questions from Committee members.

In the discussion that followed, Committee members and staff touched on a number of topics, including the extent to which some banks may already be offering products based on the templates, the viability of products based on the templates for large banks, the problem the templates are designed to address and the extent to which products based on the templates might erode a bank's more profitable customer base, the Subcommittee's consideration of whether the templates should be presented as principles or guidance, and the extent to which the features of the templates are considered essential. In response to a question from Professor Fuchs as to whether any banks are currently offering products that coincide with the templates, Mr. Murphy advised that KeyBank offers products that, although not identical, have many of the template features; Mr. McDonald advised that Liberty Bank offers no-fee checking accounts, both with and without paper statements, with all of the template features except money orders; and Ms. Ryan and Ms. Rhine advised that a number of banks offer products with features similar, but not identical, to those in the templates. In response to Chairman Bair's question regarding the viability of the products for large banks, Mr. Shepherd, noting the attractiveness of the products to the target audience, expressed his opinion that the products can be cost-effective, particularly if done on a certain scale; and Ms. Rhine, noting the industry trend toward an electronic platform, observed that moving from check-writing to debit-based transactions essentially converts what was once an expense into a revenue stream for banks.

Mr. Fish suggested that, by offering products based on the templates, banks could erode their more profitable customer base if a significant number convert to no- and low-fee accounts, and asked exactly what problem the templates are intended to address. In answer, Ms. Miller, observing that more profitable customers have come to expect certain services, such as check-writing and interest on high balances, which features are not included in the bare bones templates, expressed doubt that the number of conversions would be significant; and Chairman Bair, noting that 8 percent of U.S. households are unbanked and approximately 25 percent are underbanked, advised that the templates are designed to provide those households with accounts that provide a safe place to keep their money, with easy access to funds, the ability to get money orders to pay their rent and utility bills, and transparent costs.

Regarding the Subcommittee's consideration of whether the templates were more appropriately issued as principles or guidance, Ms. Miller indicated that the Subcommittee had identified two reasons that support a preference for guidance. Elaborating, she stated that the first reason would be the benefit arising from consistency of product offerings which, because their standard features could be easily identified by the target population, would by virtue of their predictability generate some measure of trust among consumers. She offered as a second reason the benefit that would arise from having standard products that are easily recognizable by bank examiners for purposes of providing CRA incentives. She noted, though, that there would still be some flexibility with regard to pricing.

Director Curry then asked whether it would be possible to identify certain of the template features as core features, with the others comprising a menu of additional optional features from which institutions could choose to reflect their product framework, and still allow the core product offerings to qualify for CRA credit. Supporting the idea of identifying certain core features, Vice Chairman Gruenberg pointed out that there did seem to be a meeting of the minds between consumer and industry groups on the desirability of a card-based, paperless electronic account with no overdrafts. In a follow-up question, Professor Fuchs asked whether, using the idea of a template with core and optional features, it would be possible to do a small pilot to test the viability of the projects. Chairman Bair, agreeing with the concept of a tiered approach to the template features, also supported the idea of a small pilot to allow banks, including a couple of larger institutions, to decide for themselves whether the products are viable, to determine whether the bare bones accounts would cannibalize a bank's pre-existing account relationships, and to obtain data on account performance. She directed staff to develop a pilot proposal for circulation to Committee members.

Chairman Bair then announced that the meeting would recess for lunch. Accordingly, at 11:51 p.m., the meeting stood in recess.

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The meeting reconvened at 1:29 p.m. that same day, whereupon Ms. Lazar introduced as presenters of status reports on the strategic plan projects Ms. Miller; Ms. Ryan; Luke H. Brown, Associate Director, Compliance Policy Branch, Policy, FDIC Division of Supervision and Consumer Protection ("DSC"); and Luke W. Reynolds, Chief, Outreach & Program Development Section, Community Affairs Branch, Consumer Protection and Community Affairs, DSC.

Ms. Miller, providing updates on the work of the Savings and Affordable Credit Work Groups, advised that staff had reviewed child savings account programs available in the United States and internationally as a preliminary step in determining how best the Corporation can support such programs; that, on the issue of emergency savings, staff had begun to sift through the wide range of literature on appropriate levels and likely would need to perform additional research before deciding on a direction; and that, on the issue of affordable credit, a press release on the results of the SDL Pilot had been issued immediately after the Committee concluded its morning session, with background information on the pilot and that the full report was now accessible from a link on the FDIC's home page, and the pilot information was also accessible from a link on the home page of the www.economicinclusion.gov web site. As to next steps in the area of affordable credit, she advised that the Corporation had initiated discussions with a number of groups, including representatives from the General Accountability Office, about the possibility of a Federal pilot of an employer-based small dollar loan program, provided the legal and ethical issues can be resolved; that staff would be looking into how best to support roundtable discussions between bankers on their SDL experiences; and that staff was also working on a paper on microlending for small businesses in the United States that it hoped to share with the Committee in the near future.

Commenting on Ms. Miller's update on microlending, Mr. Fish noted that reports are beginning to emerge that sheds some doubts on the desirability of microlending because of its potential to burden borrowers with permanent debt and expressed hope that staff would be able to share some of the more recent research on the pitfalls of microlending. Mr. Beck also indicated his pleasure that staff was looking into the issue and offered to share some of the research that had come to his attention.

Next, Ms. Ryan noted that the Committee had received updates on the efforts of the Transactional Accounts Work Group during the morning session and indicated that, in accordance with the Committee's earlier directive, staff would be moving forward on a small-scale pilot to assess the viability of products based on the revised template. She then advised that, in response to a recommendation arising from the April 1, 2010, meeting of the Committee, a Safe Mortgage Products Work Group had been formed and was being chaired by Mr. Eakes, with Messrs. Ryan, Beck, and Boston, and Professor Fuchs as members; and that the group would focus on ways that banks can encourage successful and sustainable homeownership for LMI households, would likely summarize and document any mortgage related provisions once pending legislative reform efforts are completed, and would also undertake an empirical study of the appropriate variables banks should consider when lending to LMI households in a sustainable way. Observing that the group was just beginning its work, she further advised that it would have more to report at the next Committee meeting. Mr. McDonald stated that his institution had done quite a bit of mortgage lending to LMI households and volunteered to also work with the group.

Mr. Brown then reported on the Incentives Work Group, advising that its objectives were to develop a high profile Chairman's Award for creative programs that support the financial needs of LMI consumers, to determine how best to encourage banks to partner with Community Development Financial Institutions ("CDFIs"), and to examine ways in which CRA credit can be used to incentivize banks for providing safe and affordable products and services to the LMI community. Regarding the Chairman's Awards, he stated that the plan was to provide recognition to groups and depository institution employees that develop affordable, transparent, and successful programs targeting LMI consumers, with emphasis on innovation in transaction accounts, innovation in savings accounts, and excellence in affordable credit; and that, he hoped, it would be made public in late summer, with the receipt of applications in the fall, followed by the evaluation process, and culminating with the announcement of award recipients in early 2011. Regarding the plan to encourage bank/CDFI partnerships, he advise that staff thought it would be helpful to host a webinar that would include a variety of stakeholders to discuss the work being done by CDFIs and the impact of the work and to address some of the concerns, such as underwriting, that have been raised with respect to bank/CDFI partnerships. With regard to CRA, he indicated the work group was looking forward to seeing what comments were received from a series of public hearings jointly sponsored by the Federal banking agencies to solicit feedback on how best to revise regulations to better serve the goals of CRA. At Chairman Bair's request, Mr. Brown then provided a brief summary of the extent to which CRA currently provides incentives for SDLs and for simple, no-frills accounts for LMI consumers.

Providing an update on the efforts of the Financial Literacy Work Group, Mr. Reynolds reported that the group had been working on four core areas, which he identified as recommendations on how the Corporation can promote youth financial education; development of a financial certification program; exploring potential regulatory changes to promote outcome-based financial education; and examining education efforts, determining best practices and resources, and evaluating how the resulting information can be more broadly disseminated. He elaborated on the promotion of youth financial education, advising that the work group had received a number of recommendations, including recommendations to explore new partnership alternatives, with emphasis on leveraging bank involvement; a recommendation to update a non-profit guide on school-based bank branches and, at the same time, have the FDIC adopt a school and also engage in broader discussions of the various ways in which banks can work with schools to promote financial education and savings; a recommendation to rebuild the capacity of teachers to provide financial education, perhaps by establishing a blog for teachers, pursuing opportunities to train teachers, and otherwise facilitating sharing among educators of successful delivery mechanisms for financial education; a recommendation to highlight ways in which school districts and systems can teach core competencies, such as English and mathematics, while also incorporating financial education; and a recommendation to facilitate broad research on the topic by, among other things, developing an article setting forth practical examples of successful delivery of youth financial education, leveraging the Corporation's work with historically black colleges and universities, and leveraging opportunities to share and disseminate the Treasury Department's core financial education competencies once they are released.

With respect to development of a financial education certification program, Mr. Reynolds indicated that input from Mr. Beck suggested that a certification program might encounter resistance from teachers and states and that the group's time might be better spent working with organizations that are developing teacher training programs to ensure that the programs for educators are of high quality. Although he indicated that not much work had been done on exploring other regulatory changes to promote outcome-based financial education and examining education efforts to determine best practices and resources and mechanisms for broad dissemination, he advised that staff would look at putting together a quick reference guide on the various ways financial education currently qualifies for CRA credit and at whether the www.economicinclusion.gov website could be utilized to highlight research conducted by other agencies in the area of financial education best practices.

There then ensued a discussion, during which Committee members offered a number of comments and suggestions regarding, among other things, best practices, teacher training and certification, identifying high quality financial education programs, partnerships, and CRA incentives for financial education programs. On the topic of best practices, Mr. Beck commented that there are a number of existing programs from which the Corporation could draw best practices, including the KeyBank program and the Junior Achievement Program; Professor Fuchs suggested that the ComE-IN portal might be a good place to post best financial education practices and resources; and Mr. Ryan, noting that the National Governors Association ("NGA") has a Best Practices Division, suggested that the FDIC could work with NGA to adopt best practices in a number of areas such as financial education and small dollar lending and, at the same time, gain traction from promotion of those practices by state governors.

With respect to teacher training and certification, Professor Fuchs and Mr. Boston were both supportive of the idea, Mr. Murphy advised that KeyBank had developed for its employees a financial education certification program, the core of which is *Money Smart*, and Mr. Beck suggested that, rather than focus on teacher training, it might be better to allow teachers to bring into their classrooms volunteers from organizations that already have effective financial education training programs. With respect to identification of high quality financial education programs, Mr. Boston offered his opinion that the FDIC's *Money Smart* program is one of the premier financial literacy programs in the country, and both Mr. Boston and Mr. Beck suggested that the Corporation should be more proactive in marketing the program; and Professor Fuchs agreed and, arguing that *Money Smart* creates a standard against which to measure quality, suggested that the FDIC should take a leadership role in identifying highly effective financial education programs. In response to the suggestion that the FDIC be more proactive in advertising the *Money Smart* programs, Ms. Lazar indicated that perhaps staff might give some thought to how best to take advantage of *Money*

Smart's upcoming 10-year anniversary to more actively promote the program.

Regarding partnerships, Mr. McDonald observed that he had yet to hear any mention of coordination with the Department of Education ("DOE") and suggested that an FDIC-DOE partnership on financial education would be beneficial, in response to which Mr. Reynolds indicated that staff had met with DOE representatives and that there may be future opportunities to work closely with that agency. In addition, Mr. Boston suggested that there might be an opportunity for the Corporation to link its financial education efforts with the Public Broadcasting Service's Right to Read program.

Finally, regarding CRA, Mr. Beck suggested that once core financial competencies have been identified, it would serve as a starting point for evaluating the merits of financial literacy programs and determining which should be recognized for CRA credit. Chairman Bair expressed concern that, by not having qualitative standards against which to measure financial education programs for purposes of CRA credit, regulators may be spurring banks to unnecessarily create even more curricula. She indicated that it was an interesting issue and one which required additional thought and perhaps research.

Ms. Lazar then advised that Mr. Briggs; Janet R. Gordon, Senior Policy Analyst, Compliance Policy Branch, Policy, DSC; and Mr. Brown would provide an issues update to the Committee.

Mr. Briggs provided a brief overview of the financial services reform legislation pending in Congress, addressing some of the key consumer protection features of the legislation, including creation of an independent consumer protection entity and its rulemaking and enforcement responsibilities, particularly with respect to unfair, deceptive and abusive acts and practices in connection with consumer financial transactions, possible limitations on debit card interchange fees, and changes to the standard for preemption. He also discussed proposed changes to the regulatory structure, possible grants for SDL programs, and provisions related to mortgage reform. Upon conclusion of the overview, Chairman Bair requested that, once the bill is finalized, staff prepare and circulate to Committee members a summary of its provisions.

Ms. Lazar then advised that, on June 17, 2010, the Corporation, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision issued a joint press release announcing they would be holding four hearings around the country to gather testimony and comments from interested parties on modernizing CRA regulations and that the agencies would be issuing a proposed CRA rule to encourage depository institutions to support the Neighborhood Stabilization Program funded by the Department of Housing and Urban Development. She then turned the floor over to Mr. Brown, who discussed some of the reasons the agencies were revisiting CRA.

Mr. Brown noted that the last major change to CRA occurred in 1995 and that the financial industry had changed significantly since that time. Specifically, he stated that depository institutions have changed the way they do business, with a complete shift in the concentration of lending and deposit-taking activity and the impact of technology. He indicated that community needs have also changed during that period, particularly the needs of LMI communities and, since CRA focuses on meeting the needs of communities, it made sense to take a fresh look at the regulations. He concluded by stating that all of the regulators were looking forward to the hearings and the public dialogue on CRA modernization and that staff would keep the Committee apprised going forward.

Providing more specifics on the logistics and content of the CRA hearings, Ms. Gordon reported that the four hearings would take place over the summer, in Arlington, Virginia in July; and in Atlanta, Georgia, Chicago, Illinois, and Los Angeles, California in August. She further reported that stakeholders could submit a request to participate through the Federal Financial Institutions Examination Council web site; that the reference documents governing CRA could also be accessed through the site; and that written comments could be submitted to any of the agencies through August 31. After noting that the hearings were the first phase of a process that would likely involve issuance of a notice of proposed rulemaking, with an additional comment period, and, ultimately, issuance of a final rulemaking, Ms. Gordon advised that the agencies were inviting testimony and comments on the geographic coverage of CRA; CRA performance tests, asset thresholds and designations; affiliate activities; small business and consumer lending evaluations and data; access to banking services; community development; ratings and incentives; the effect of evidence of discriminatory or other illegal practices on CRA performance evaluations; and CRA disclosures and performance evaluations. She also advised that the agencies agreed to take concerted action, apart from the broad CRA reform effort, to more quickly respond to the particular concern about high foreclosure areas; and that, because the Neighborhood Stabilization Program focused on and identified high foreclosure areas, the agencies had piggybacked on what was already in place and issued a proposal, with a 30-day comment provide, to provide expanded CRA consideration for financing neighborhood stabilization program activities.

Staff then responded to a few follow-up questions from Committee members on statutory versus regulatory changes to CRA, the extent of the changes being considered by the agencies, and whether the Committee could submit a comment independent of the Corporation. Vice Chairman Gruenberg pointed out that the record created from testimony and comments would in large measure serve as the foundation for the rulemaking process to follow and that, therefore, the more comments received the more helpful the hearing process would be.

Recapping the action items from the meeting, Chairman Bair noted that the Committee had recommended that the Corporation adopt the SDL template and that Ms. Miller would be taking the lead on promoting such loans more broadly; that staff was to circulate to Committee members a proposal to do a pilot on the core transactional and savings account templates, with the flexibility of adding on optional features; that staff would be looking into working with the Committee on whether the FDIC could play a role in adopting a school; that staff would also be looking into and working with the Committee on what the FDIC can do to facilitate certification of financial literacy programs; and that Committee members would discuss among themselves about the possibility of independently weighing in on the CRA regulatory reform effort.

There being no further business, the meeting was adjourned.

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance
Corporation
And Committee Management Officer
FDIC Advisory Committee on Economic
Inclusion

Minutes

of

The Meeting of the FDIC Advisory Committee on Economic Inclusion

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

June 24, 2010 - 8:49 A.M.

I hereby certify that, to the best of my knowledge, the attached minutes are accurate and complete.

SC Bair

Sheila C. Bair
Chairman
Board of Directors
Federal Deposit Insurance Corporation

And

Presiding Officer
June 24, 2010, Meeting of the
FDIC Advisory Committee on Economic Inclusion

Dated: September 30, 2010