FEDERAL DEPOSIT INSURANCE CORPORATION

Bank Efforts to Serve Unbanked and Underbanked Consumers

Qualitative Research

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EXECUTIVE SUMMARY

An estimated 7.7 percent of U.S. households did not have a checking or savings account (unbanked households) in 2013.[1] Among households with a bank account, 20 percent also used nonbank financial services to meet their financial needs (underbanked households). The FDIC recognizes that public confidence in the banking system is strengthened when banks effectively serve the broadest possible set of consumers. Accordingly, the agency is committed to helping increase the participation of unbanked and underbanked consumers in the banking system.

The primary goal of this qualitative research was to inform bank efforts to develop sustainable relationships with unbanked, underbanked, and low- and moderate-income (LMI) consumers by learning more about the products and services banks provide and the strategies they pursue to better serve these consumers; how those products, services, and strategies are developed and implemented; and ways banks can improve their ability to develop sustainable relationships with these consumers. This study also provided insights into the opinions, motivations, and attitudes of consumers, financial institutions, and bank partners that can help inform bank efforts to more effectively serve the financial needs of these consumers.

This research was conducted between April and December of 2015 and consisted of a series of interviews with bank, nonprofit, and government executives and focus groups with consumer counselors and unbanked, underbanked, and LMI consumers. Qualitative research, including focus groups and structured interviews, has inherent limitations and any findings reflected in this report should be considered with these limitations in mind. The purpose of this study was not to estimate the prevalence of various attitudes in the consumer population, nor was it to produce results that are representative of all participant groups. This qualitative analysis also does not attempt to measure the impact of particular bank efforts or to determine their effectiveness. The comments made by participants were based on their own perceptions and experiences, which may not accurately reflect the full or complete information about current policies of banks or the standards in the financial industry.

Major Findings and Implications

This qualitative study brought together the experiences of bankers, consumers, nonprofit executives, and consumer counselors to add depth to our understanding of banks' efforts to engage unbanked and underbanked consumers. The study intentionally reached out to executives at banks that have a reputation for leadership in efforts to serve unbanked and underbanked consumers. Not surprisingly then, bank executives we spoke with reported that they provide a range of products and strategies that seem to meet the expectations of consumers and counselors that we interviewed. Similarly, banking executives indicated an understanding of the importance of providing services in convenient locations and in branches with welcoming and knowledgeable staff.

On the other hand, our conversations with consumers and counselors paint a picture of a consumer marketplace where banks are often perceived as untrusted and unresponsive to consumer needs. While the consumers and counselors that we spoke with were not typically customers of the banks included in the study, their perceptions suggest continuing challenges. However, we remain optimistic about this seemingly contradictory set of conversations. Indeed, it is encouraging that significant overlap exists between the products and services that unbanked and underbanked consumers want and the strategies that banks are pursuing.

The findings made throughout this report indicate that promising opportunities exist for banks that are considering developing longer-term, sustainable relationships with unbanked and underbanked consumers. The report relies on direct de-identified quotes to provide a rich context for understanding the perspectives of research participants.

[1] 2013 FDIC National Survey of Unbanked and Underbanked Households, October 2014, page 4, available at www.economicinclusion.gov.

We draw five major implications from the findings of this broad-based qualitative analysis that banks and other stakeholders can use to enhance their efforts to serve these consumers:

1. Recognize that Trust is the Foundation for Strong Relationships with Unbanked and Underbanked Consumers

Lack of trust comes in multiple forms and stems from numerous causes. Adopting strategies to build or increase unbanked and LMI consumers' trust in banks is a necessary first step to increasing their participation in the mainstream financial system. Similarly, maintaining and strengthening long-term partnerships with nonprofit organizations that serve residents of LMI communities can be an advantageous strategy for banks, nonprofits, and consumers.

2. Adopt a Multi-Pronged Approach to Serving LMI Consumers

Banks appear to be most successful when they simultaneously implement multiple approaches to address the many salient challenges for serving LMI consumers. Examples of approaches include hiring branch staff who have cultural familiarity with area residents, engaging in strategic partnerships, and offering an appropriate variety of products and services to meet the needs of the local community and that can serve as "gateway" products for consumers that may be interested in establishing a banking relationship.

3. Nurture Longer-Term Relationships with Community Partners

Bank partnerships with nonprofit organizations and local government agencies are key components in their efforts to serve unbanked, underbanked, and LMI consumers. This is a "tried and true" strategy that, when executed well, is mutually beneficial to banks, their community partners, and consumers. To be most effective, however, these partnerships require significant commitments from banks and their partners. In particular, better communication about shared goals and metrics is likely to lead to greater successes for all participants.

4. Use Technology to Increase Efficiencies for the Bank, Its Partners, and Its Customers

From text alerts that communicate timely account information to consumers, to Web portals that enable bank partners and their clients to open consumer accounts remotely, all groups in the study discussed how technology tools can help banks and their partners better serve unbanked and underbanked consumers. In addition to the specific efficiencies created by the tools, technology is a crucial battleground on which competition between bank and nonbank financial services providers takes place.

We consistently heard from consumers and counselors that consumers will use the financial services that are most convenient to them. Banks likely will be challenged to compete with nonbank providers on physical locations (bank branches versus check cashers and payday lender storefronts, for example), but banks can use technology strategically to help mitigate this situation. For example, banks are offering technologies, such as remote deposit capture where deposits can be made from anywhere at any time, that can increase convenience for consumers and possibly lower branch operating costs. Added convenience can be a way to reduce the costs associated with using bank services and better attract more unbanked and underbanked consumers and retain them as customers.

5. Develop an Understanding of Unbanked and Underbanked Consumers in the Bank's Market Area

Unbanked and underbanked consumers have wide-ranging perceptions about banks and their products and services, which, in turn, are related to the diversity within these consumer groups. Banks seeking to serve these consumers will benefit from understanding their situations beyond simply their unbanked or underbanked status. Products and strategies that will attract the interest of a consumer who is unbanked because she thinks she does not have enough money for a bank account will likely be different from those that will attract the interest of a recent immigrant unfamiliar with the U.S. banking system. Banks need to understand the diversity in the unbanked and underbanked populations and the factors that motivate these consumers, recognizing that diversity likely exists even among consumers in the same community. Banks can use this information to develop more effective strategies to engage consumers.

I. Introduction

An estimated 7.7 percent of U.S. households did not have a checking or savings account (unbanked households) in 2013.[2] Among households with a bank account, 20 percent also used nonbank financial services to meet their financial needs (underbanked households). The FDIC recognizes that public confidence in the banking system is strengthened when banks effectively serve the broadest possible set of consumers. Accordingly, the agency is committed to helping increase the participation of unbanked and underbanked consumers in the banking system.

The primary goal of this qualitative research was to inform bank efforts to develop sustainable relationships with unbanked and underbanked consumers. Through interviews and focus groups, researchers investigated the products and services banks provide and the strategies they pursue to serve these consumers, how those products and strategies are developed and implemented, and ways banks can improve their ability to develop sustainable relationships with these consumers.

The FDIC regularly undertakes quantitative research on economic inclusion of unbanked and underbanked consumers through studies, such as the Survey of Banks' Efforts to Serve the Unbanked and Underbanked and the National Survey of Unbanked and Underbanked Households. The present study builds on this research by taking a qualitative approach to gain insights into the opinions, motivations, and attitudes of consumers, financial institutions, and bank partners. These additional insights can help inform bank efforts to more effectively serve the financial needs of unbanked, underbanked, and LMI consumers.

A. Background and Methodology

This research was conducted between April and December of 2015 and consisted of a series of interviews with bank, nonprofit, and government executives and focus groups with consumer counselors and unbanked, underbanked, and LMI consumers. The FDIC contracted a research consulting firm to conduct the research and perform the initial analysis of findings.

This research project began with a review of current efforts that banks are using to engage unbanked and underbanked populations.[3] The purpose of this preliminary research was to ascertain general trends in the field and to identify effective approaches that were suitable for more in-depth study. Interviews were conducted with academics, government officials, and executives of industry and community organizations that had experience and expertise on the financial decision making of unbanked and underbanked consumers, including why they do not have bank accounts or use nonbank financial services, and knowledge of approaches that banks have taken to develop relationships with these consumers.

Based on the literature review and interviews with these experts, researchers identified several approaches that appear to hold promise. These include products, such as deposit accounts and other financial products and services that help meet the needs of unbanked and underbanked consumers in the bank's market area, and strategies, such as partnerships with nonprofit organizations, marketing approaches, or staff development, to support bank efforts to serve unbanked and underbanked consumers.

As a result of the findings from the knowledge scan, the FDIC selected a number of promising products and strategies to further analyze. Interviews were conducted with executives from 11 banks identified as having effectively used these approaches. The goal of the interviews was to learn more about why and how banks launched and implemented their initiatives, identify potential challenges and lessons learned, and determine how the bank perceived the initiative's effectiveness. Of the interviewed banks, five had assets of more than $1 billion, three had assets between $250 million and $1 billion, two had assets between $100 and $250 million and one bank had assets of less than $100 million. The branch footprints of these 11 banks collectively include 42 states and span all regions of the country.

A second series of interviews was conducted with executives from eight nonprofit and governmental organizations that partnered with the interviewed banks. The purpose of these interviews was to learn more about the organizations'

[2] 2013 FDIC National Survey of Unbanked and Underbanked Households, October 2014, page 4, available at www.economicinclusion.gov.
[3] More details about the methodology are given in the Appendix.

perspectives on their partner banks' initiatives and the extent to which they thought these approaches addressed the needs of unbanked, underbanked, and LMI consumers. The information collected from the first two phases help us better understand the motivations, obstacles, and lessons learned by institutions engaged in efforts to reach unbanked, underbanked, and LMI consumers.

To gain insights from consumer counselors, eight focus groups were conducted in five cities: Los Angeles, CA; New York, NY; Jackson, MS; Mobile, AL; and Cleveland, OH. The selected cities were geographically diverse, represented different market areas, and were within the retail footprint of one or more banks included in the study. Sixty-four consumer counselors who work for nonprofit organizations that provide financial education or counseling to LMI populations in each of the locations participated in the focus groups. Focus groups included a maximum of two counselors from any one nonprofit organization.

Eight additional focus groups were conducted in the same five cities with 79 consumers, of which 47 percent were unbanked and 23 percent were underbanked. Individuals were recruited through nonprofit organizations and professional facilities. To ensure that the focus groups in each city consisted of a diverse pool of consumers, these individuals were screened on a number of characteristics, including demographic background (most participants were African American or Hispanic), employment status, and financial experiences and behaviors. Two focus groups were conducted in Spanish.[4]

During these focus groups, financial counselors and consumers were asked about the methods LMI consumers used to make and receive payments, their perceptions of banks and nonbank providers, considerations when deciding whether to open or retain bank accounts; challenges or barriers consumers face when seeking to become fully banked, and feedback on various types of bank products or initiatives identified during earlier phases of the research.

Importantly, the consumer counselor and consumer focus group participants were not required to be customers of, or to have had any experience with, the 11 interviewed banks. Thus, the perspectives they shared were unlikely to be tied to experiences they had with any bank included in this study.

B. Potential Limitations

Qualitative research, including focus groups and structured interviews, have inherent limitations, and any findings reflected in this report should be considered with these limitations in mind. The purpose of this study was not to estimate the prevalence of various attitudes in the consumer population, nor was it to produce results that are representative of all banks, bank partners, counselors, or consumers. This qualitative analysis also does not attempt to measure the impact of particular bank efforts or to determine their effectiveness.

The comments made by these four distinct groups were based on their own perceptions and experiences, which may not accurately reflect full or complete information about current bank policies or the standards in the financial industry. Bank executives that we interviewed were intentionally selected to capture the perspectives of individuals and institutions responsible for leading practices in reaching out to unbanked and underbanked consumers. The nonprofit and government executives who participated in the study worked with the selected banks. The products and strategies that the interviewed banks developed are not necessarily representative of the banking industry.

The consumers recruited for focus groups were intentionally selected for their status as members of the unbanked, underbanked, or LMI population and also were intentionally selected to ensure participation by specific subgroups such as Hispanic and African American consumers. Their experiences with and perceptions about banks and nonbank financial service providers may not be representative of the general population nor the population sub-groups they represent. Similarly, consumer counselors who participated were identified by organizations that work with consumers who are similar to those recruited for the consumer focus groups. Again, their comments on consumer experiences with and perspectives about banks and nonbank providers were likely closely associated with the experiences of individuals participating in the consumer focus groups but may not represent a more generalized population of unbanked, underbanked, or LMI consumers.

With these considerations in mind, we believe that the discussion about bank products and strategies, the challenges and lessons learned, and the perceptions and experiences of

[4] The appendix includes a breakdown of participant characteristics of the consumer focus groups.

consumers and counselors should offer financial institutions useful information as they consider how they could better serve the financial services needs of unbanked and underbanked consumers in their markets.

C. Report Structure

The remainder of this report synthesizes information gathered from the four phases of this research project, organized into six chapters.

Chapter II provides essential context for understanding the bank efforts that are the core focus of this research. It discusses the joint issues of trust and familiarity, namely that many LMI consumers interviewed, including unbanked and underbanked consumers, do not trust banks, and often are unfamiliar with many of the products and services banks offer. Counselors and consumers in each of the focus groups raised these issues. Bank executives in this study also report their awareness and understanding of the issue of consumer distrust and how it poses a barrier to serving unbanked and underbanked consumers. This issue underpins much of the economic inclusion efforts made by the interviewed banks, including the bank strategies discussed in each of the subsequent four chapters of this report.

Chapter III discusses bank efforts to address trust and familiarity issues in order to increase their acceptance and successful delivery of products and services to LMI communities which likely have higher shares of unbanked and underbanked consumers. Strategies for addressing these issues are often at an institutional level, rather than at an individual product level, including developing local partnerships with community organizations that are trusted by local residents, providing bank branches in locations and with operating hours accessible to LMI consumers, and using appropriate language and communications strategies to reach out to these consumers.

Chapter IV discusses bank strategies to offer a range of products and services to meet the diverse needs of unbanked, underbanked, and LMI consumers. These include gateway banking products and services, such as check cashing, as an alternative for consumers currently using nonbank financial services providers. Products serving the financial transactions needs of these consumers include low- and no-fee checking accounts and general purpose reloadable prepaid cards. This chapter also discusses strategies to help unbanked consumers re-enter the banking system, including second-chance accounts and short-term credit with affordable terms and credit building opportunities, as an alternative to using payday lenders.

Chapter V addresses strategies banks use or can use to maintain relationships with underbanked and LMI consumers (including previously unbanked consumers). It describes ways banks can minimize some barriers to becoming and staying banked by ensuring that consumers have easy access to product and service information and the use of technology tools to streamline account opening and management.

The strategies described in chapter VI also relate to the issue of trust, in that a bank's chances for successfully earning and maintaining the trust of LMI consumers and the organizations that support them may improve if the bank delivers a consistent consumer product and message across the institution and over time. Consumers should encounter bank staff in any branch who are knowledgeable about products relevant to their needs and who are eager to offer the product to them. Similarly, banks that are responsive to feedback from their community partners in serving LMI consumers are likely to encounter a more positive reception from these community organizations and with consumers, thereby fostering trust over time.

The report concludes with a discussion of the implications of the overall findings from this qualitative research. These implications are drawn with an eye toward informing banks, nonprofit organizations, and government agencies about potential efforts that may help them to engage and develop longer term, sustainable relationships with unbanked and underbanked consumers.

II. Earning Trust and Achieving Familiarity Are Crucial Challenges

Trust, and particularly the lack of or limited trust that many unbanked and underbanked consumers have for banks, was a recurrent theme throughout most of the focus groups and interviews conducted during this research. This is consistent with findings from the 2013 FDIC National Survey of Unbanked and Underbanked Households, in which the second most common reason unbanked households cited for not having a bank account was distrust or dislike of banks (34 percent of unbanked households indicated that was a factor in their decision to not have a bank account, and 15 percent indicated this was the main reason).[5]

Similarly, focus group dialogue indicated that many consumers are unfamiliar with banks and banking products and services. For many unbanked and underbanked consumers in these focus groups, banks are simply foreign entities. Indeed, they do not consider banks to be relevant to meeting their financial services needs.

This section presents quotes and synthesizes descriptions from several bank executives about their perceptions of the lack of trust some consumers feel for banks. These comments came up without prompting—bank executives were not directly asked in the interviews to discuss issues of trust. The section also includes comments from consumers and counselors about distrust and its effects on consumers' existing and potential relationships with banks, as well as the lack of familiarity many consumers have with banks and their products. The counselor and consumer focus groups discussion guide included specific questions about trust; consequently this group's discussion of their perspectives on trust and familiarity issues was substantially more detailed than that of the bank executives.

We present this section first because issues of trust and familiarity affect all of the discussions of bank products and strategies. Without some element of trust on the part of unbanked and underbanked consumers, banks will not be able to appeal to these consumers. Thus, it is essential that bank personnel and others interested in improving the reach of banking services into communities of unbanked and underbanked consumers understand this issue. Subsequent chapters present strategies and products that banks have developed to bridge these hurdles and better serve these consumers.

A. Bank Executive Perspectives on Trust and Familiarity

The majority of bank executives interviewed described the challenges of establishing trust and developing familiarity among unbanked and LMI consumers. One executive described the issue as follows:

> "[W]hen you target an unbanked population and you yourself are a bank, there is a stigma that is associated with you amongst your target audience. And so, that is a very difficult barrier to overcome because there is a narrative that is built up within the mind often times among [unbanked] consumers around who you are, before you ever get a chance to tell them who you are. That is not an easy thing to overcome . . . So you have to know that audience well, and then you have to make good on every single interaction because the first impression is obviously going to be key in any consumer experience. It's more so in this segment."
>
> — Bank Executive

Asked about the greatest barrier in developing relationships with LMI and unbanked consumers, one executive said the following:

> "I think that banks have a bad rep . . . a lot of this population has had a bad experience in the past, you know, charged off, lots of fees. They think everything is fee related, it's hidden fees, you are trying to pull one on over on me and you are not there to help me and just want to make money, that sort of thing. So I think that is a huge barrier."
>
> — Bank Executive

[5] 2013 FDIC National Survey of Unbanked and Underbanked Households, October 2014, page 6, available at www.economicinclusion.gov.

An executive from a third bank reflected on his institution's learning from offering check cashing services:

> "I think [there are] a couple of learnings that we pulled out of our check-cashing experience . . . one is the bank is not necessarily the trusted source. In most cases, it's the last place people are going to go. So as a banker, you do have to get over your ego, and it took us a while to understand that people would rather go to a check casher than a bank, most every day of the week."

— Bank Executive

B. Consumer and Counselor Perspectives on Trust in and Familiarity with Banks

Consistent with what we heard from bank executives about the importance of establishing trust, consumers and counselors also emphasized this issue. Participants in every focus group considered lack of trust in and lack of familiarity with banks to be important barriers to developing sustainable relationships between banks and LMI and unbanked consumers, confirming the importance of these issues. The consumer and counselor discussions provide details about various reasons for this distrust and lack of familiarity. In some instances, these conversations addressed trust explicitly. In others, consumers and counselors discussed issues such as consumers' general discomfort with banks, their uncertainty about the security of funds in their bank accounts, or their concern about excessive and unpredictable fees.

One practitioner explained her clients' perceptions about banks as follows:

> "My clients [have] different ways of thinking about banks. I feel like younger people, whether their parents are from another country or whether they grew up here, they're often paranoid about [banks] . . . They just think that the bank is a bad institution, and they want to stay away from it. . . . Often, it's just a lack of knowledge or just like they don't understand it, so they just stay away. They're, like, check casher is the people they know. It's a friendly place. And then I feel like a lot of clients who are natives to New York but had a bank account, I had a lot of clients who are low income but had a bank account and got burned. They had [an account with one of the] major banks . . . and there was a misunderstanding over overdraft fees, for example, and just one misunderstanding like that. And the banks say they explain these things when you open an account, but they don't. I've talked to clients directly about exactly what the teller says, and it might be this tiny fine print that they don't understand how the overdraft fee works. So, one bad thing happens, and it adds up. They just run away and never look back. They don't trust it."

— Consumer Counselor

Several counselors spoke about the legacy of historic discrimination by banks. One explained that many consumers remember when banks decided to intentionally withhold mortgages to minorities, and that "people have not forgiven them for that." Another counselor suggested that mistrust of banks "might be something that is passed down" from generation to generation.

Immigrants and those who work with immigrants said that perceptions and attitudes toward U.S. banks may be colored by events experienced in the consumers' countries of origin.

> "Many clients come from countries in which the banks went bankrupt. They lost their money. Now they have a great deal of mistrust of the banks, because they have lost their savings before."

— Consumer Counselor

A counselor in another city made a similar point, observing that immigrants from Mexico remember when "the banks closed down and a lot of people lost all their money." In one of the Spanish-language focus groups, a consumer recalled the government's interference in the banking system in Venezuela and observed that "With the press of a button they turn everything off . . . just like they did in Venezuela."

C. Some Consumers Feel that "They Don't Belong" in Banks

1. They believe that banks are only interested in serving wealthy customers

One counselor reported clients telling her that "[banks] don't want to serve me because [I have a] small account and they don't care about me." Another counselor said that clients, especially immigrants, believe that "If you use a bank, it's because you have money." A counselor in another city echoed this concern and observed "a mentality [that says] you need to already have money [to use a bank]. It's intimidating that you're going to a bank where money is kept, but you don't have it there, so [consumers] don't go to the bank because you're supposed to have money if you go to a bank." Another counselor said, "Some of our clients have kind of tacitly understood that, 'I'm not their ideal customer'."

2. The environment inside banks feels foreign or intimidating to them

This perspective was shared by several focus group participants. For example, one counselor commented that LMI consumers feel intimidated at banks, and a counselor in another city noted that "Sometimes . . . you're just not comfortable with using banks." Consumers also said they found bankers intimidating. For example, one person said she feels like bankers "act like I'm better than you." Interestingly, a number of focus group participants specifically mentioned the clothing worn by bank employees. For example, one counselor explained that "[Banks are] a place that doesn't feel open to them [because] when you walk in to a glossy bank with all these people in suits . . . you don't feel welcome in the space . . . so they just stay away." A counselor in another city echoed this statement, observing that "suits and ties are intimidating."

3. Many consumers feel more comfortable at alternative financial service providers than at banks

Many counselors and consumers reported that unbanked and LMI consumers are more familiar and comfortable with alternative financial service (AFS) providers (such as check cashers).

Counselors in several focus groups observed that the culture of AFS providers—for example, the demographics and dress of employees and the language they use—was familiar to LMI consumers. They noted that this familiarity makes LMI consumers feel more at ease at an AFS provider than they might be at a bank.

> "I think it's also maybe cultural. They literally speak your language. Not so much they speak Spanish, but maybe it's . . . like the Dominican population will go to this particular business because the employees of the business are Dominican and speak their language per se. There goes that element of trust again, I think."
>
> — Consumer Counselor

> "These check cashers, they look like us. They speak like us . . . It's a small little organization that is familiar to them. And when a person in our community is going into a bigger system [like a bank], it's difficult. It's very unfamiliar, and that's a big barrier."
>
> — Consumer Counselor

> "You go to payday loans and they know you by name. They know your family. They remember. My own [family] branch had been banking there for like the last 30 years. They don't know me."
>
> — Consumer Counselor

> "When you walk in there [i.e., to a check cashing provider], they're like, 'Oh, hey! Welcome back, [name]. Good to see you! How's your daughter?' You know, at the bank, you don't get all that."
>
> — Consumer Counselor

> "Most of our clients don't have an association with a bank, [but] they've been using [name of check casher] for years and years . . . 'My mother did it, my father did it. My friends did.' So they go there."
>
> — Consumer Counselor

4. Some consumers are concerned that they are likely to be rejected by banks

Some consumers expressed a negative attitude about banking because they were denied bank products in the past. For example, one consumer said, "I get mad [at banks] because every time I go there for a loan, they turn me down." A consumer in another city made a similar comment, noting she used a payday lender because her bank rejected her loan application. In her case, she had been a long-term customer, but the bank turned her down for a loan anyway, and she felt like this was a poor way to treat a customer. "They put you through the third degree, then you don't get the loan, and that's when I reverted to payday lenders," she said. When asked whether he might try to open a bank account, one consumer responded, "I don't even want to go in and do it, 'cause it's like, you go…for a checking account and they look at it and they're like, 'Oh dude, we can't give you an account'."

Counselors also mentioned that their clients have similar concerns, noting that LMI consumers sometimes choose to work with AFS providers because "they're not going to get the 'no'." Some counselors noted that consumers sometimes internalize this rejection, concluding that they are "not worthy" of banking services.

D. Consumers' Lack of Familiarity with Banks Impedes Access

Consumers expressed a lack of knowledge about bank products and services, even when offered by major institutions in their local market area. For example, many focus group participants were unaware of the availability of low-fee checking accounts offered by banks in their area.

> "I didn't even know that they had [check cashing] in a in a bank . . . or prepaid. I didn't know banks had that either . . . [finding out about] most of the stuff in a bank is by chance."
>
> — Consumer

III. Bank Strategies to Build Trust and Familiarity

Banks have developed various strategies that help build trust between their institutions and unbanked, underbanked, and LMI consumers. These strategies also help to address consumers' lack of familiarity with banks and the fact that they do not consider banks to be providers that are relevant to meeting their financial services needs. Some of these strategies are described below.

A. Creating Local Partnerships

Several banks work with established, trusted partners from the local community (e.g., community groups, faith-based organizations, local government, and social service agencies) to build trust and educate consumers about the benefits of using banking services and the longer-term advantages that a banking relationship offers in gaining access to other financial products.

Nonprofit and bank executives both commented on the effectiveness of this strategy to build trust.

> "People trust their nonprofit that they've been working with for years and years. And they trust them that if they've brought in this bank to talk about services then perhaps we should trust them too. And that's where the relationship starts."
>
> — Bank Executive

Similarly, a nonprofit executive discussed the benefits of having representatives from a bank present when they provide financial education for consumers. The nonprofit partner can introduce consumers to bank employees, who will then be at the branch when the consumer goes to open an account.

> "What also helps is just the fact that [bank name] has been able to also be present . . . we invited them to partake in our education, invited them to some of our meetings—That was really effective at being able to establish some sort of trust with the financial institution—putting that face to the product like, 'This is the person that can help you at the bank.' That really helped clients feel more comfortable. A lot of our clients had this mentality like, 'Oh my God, I'm going to go to a bank and these people are super-intimidating,' but they see that this individual comes after work and looks just like them, and it's the banker that can help them open an account. It establishes that trust factor with them. That was really effective."
>
> — Nonprofit Executive

Another bank executive described how his institution works with local nonprofit organizations to help them introduce their product suite, including a no-fee transaction account and other products developed to attract unbanked and underbanked consumers.

> "What we continue[d] to do as we launch[ed our suite] in new markets was to work quite extensively with nonprofits. So we would work with nonprofits that were identified as working with unbanked populations and LMI communities."
>
> — Bank Executive

A representative from one institution described the usefulness of marketing products through partners that consumers already trust, such as employers or community organizations.

> "[The bank had to] resign [itself] that the bank isn't the most important thing in the transaction and not the trusted partner. . . While we're in the background, if you will, and we're the engine behind it, we don't need to be that face."
>
> — Bank Executive

B. Establishing a Welcoming Local Presence in the Community

A common narrative among consumers and counselors was the importance of creating a friendly and open environment to help create a safe place for consumers to seek financial services.

> "With our families, I think it's intimidating to walk in a bank and not [find] somebody that you feel comfortable with."
>
> — Consumer Counselor

Bank executives also understood the importance of cultural affinity in staffing branches located in specific neighborhoods.

> "[When we establish a branch in a neighborhood with a concentration of foreign-born residents,] we have people who reflect the community that speak the language, that know the culture, that know the people. We get them out of the branch and into the community, in terms of being involved, and as a result business comes in—both consumer and business. It's really that deep integration into the community that probably works the best, in terms of bringing new customers in the door."
>
> — Bank Executive

C. Reaching Local Consumers with Appropriate Language and Communications

Bank executives, consumers and counselors highlighted the need to connect with non-English speaking consumers.[6] They stressed the importance of using simple language (English and other languages relevant to the area) and avoiding industry jargon and acronyms when talking with consumers about account features and fees.

They also noted that this issue goes beyond simply speaking a given language, such as Spanish, but that bank staff should speak the appropriate level or dialect to communicate effectively with local residents.

> "So I can speak Spanish and somebody else [may also speak Spanish], but if I'm speaking this high-level Spanish, it won't matter . . . you can still speak the same language, but I'm not communicating with you because I may be using really high-level words that are not going [to make sense to you]. You're not going to understand me with how I'm speaking because of the level and the terminology too."
>
> — Consumer Counselor

Counselors also suggested that branch staff have an appreciation for the cultural and social background of residents as well as language skills needed to communicate with members of the community.

> "I think it's not only about educating the customer or the consumer, but it's also about educating the team . . . I think more than anything, trust is built on having that person that you're going to. They don't necessarily need to look like me, but they need to understand where I'm coming from."
>
> — Consumer Counselor

D. Offering Branch Products and Services in Convenient Locations and During Convenient Hours

Several bank executives said that they strategically locate branches in LMI neighborhoods to increase convenience for local residents. They also cautioned that this strategy is difficult to maintain, due in part to difficulty in attracting a strong deposit base to these locations.

Others banks intentionally place branches in locations accessible to neighborhoods of varying economic status.

> "We typically . . . make sure that that branch can serve the low- to moderate- [income] community, as well as middle and upper income. [We also] place our branches in high traffic areas, near interstates

[6] The 2013 FDIC National Survey of Unbanked and Underbanked Households found that among households where only Spanish is spoken, 35 percent were unbanked and 24 percent were underbanked (see Appendix, Table A-1a). The report is available at www.economicinclusion.gov.

> . . . places of business, employers. So any of our branches [for] the most part are going to be easily accessible to whatever socio-economic level there might be, but we are very cognizant of making sure our branches effectively serve the low- to moderate-[income] community."

— Bank Executive

Some banks also offer nontraditional products and services in specific branches to meet the needs of communities served by those branches.

> "[Our bank is] focusing [its check cashing service] on communities where check cashing is a common product used within a specific geography. . . . We have chosen to launch this product specifically in branches that are within a [short distance] of heightened check-cashing use or opportunity because we want to be where the clients are looking for this product and this service."

— Bank Executive

Consumers also brought up the importance of branches maintaining nontraditional hours and days of operation to accommodate diverse schedules. Several consumer focus groups noted that AFS providers are typically open later than banks, sometimes even open 24 hours a day. They also noted increased convenience among many AFS providers in the form of shorter or nonexistent waiting lines for services, as compared to their experiences in bank branches.

Consumers and counselors noted the importance of creating a friendly, open, and safe environment for consumers seeking financial services. One bank opened a branch inside a public housing development; customers can cash checks and pay bills, including rent, from the branch.

> "You can come in to the branch and make your rent payment. It's in a safe environment. The concept is, it goes directly to the Housing Authority. People don't have to carry cash. So if you have a [check cashing] customer who is cashing their check, they can make their rent payment right here. They never have to leave the branch with actual cash in their hand, or that much cash in their hand, making it a little bit safer for them. [We can take] most bill payments."

— Bank Executive

One bank noted that when initiating their suite of services that enable non-accountholders to get services such as check cashing, they deliberately did not create a separate line or section of the bank for these services. The goal was to make sure that users of those services did not feel like the bank was treating them differently.

> "We wanted to have something different so when the person is in our line at one of our traditional branches to be serviced and standing in line, you can't tell the difference in terms of if it's a traditional bank account or someone that needs [our suite of services available to non-accountholders]."

— Bank Executive

IV. Bank Strategies to Offer a Range of Products and Services

In addition to building trust and familiarity, banks in the study are aware that unbanked, underbanked, and LMI consumers have diverse financial needs that may not be well-served by traditional bank transaction account products and services. These banks offer various financial products and services to meet these consumers' financial services needs. Some products and services can serve as gateways for consumers to enter the financial mainstream in lieu of using nonbank financial service providers, while others help consumers gain access to entry-level transaction accounts. Banks undertake some strategies to help consumers with specific needs. Second chance accounts, for example, offer consumers an opportunity to re-enter the banking system, while small dollar loans can help those who need a relatively small amount of credit at affordable terms.

One banker describes his institution's strategy to serve the financial needs of unbanked and underbanked consumers, as follows:

> "As part of our research and development strategy for this product suite . . . the intent was to meet people where they are in their financial journey, and be able to help through financial education and other resources available, then migrate them and hopefully be able to get some of them into more traditional banking services over time."
>
> — Bank Executive

By offering a variety or "suite" of products and services, banks build flexibility into their efforts to more effectively meet the financial services needs of unbanked and underbanked consumers.

> "After reading the FDIC [Unbanked and Underbanked Household] survey, we did a survey of our own customers and we found that [about one-third] of our own customers were using alternative financial services. So not only were there folks outside of our bank that weren't getting access, we had our own customers that we had a gap in our offering and that's when we decided to roll out our own [suite of financial products and services]."
>
> — Bank Executive

A. Bank Products and Services

Each of the banks included in the study offered a range of products and services to meet the needs of unbanked and underbanked consumers, though it varied across institutions. Some offered a few products tailored to specific markets, while others offered a broader suite of products and services. Interestingly, smaller banks did not offer a narrower range of products and services compared to larger banks that we interviewed. Banks approached their product mix differently, but no bank in the study offered only one product. This section describes the types of products offered by banks in the study.

1. Gateway products and services

A substantial proportion of unbanked households use nonbank financial services instead of mainstream institutions to meet their financial needs. According to the 2013 FDIC National Survey of Unbanked and Underbanked Households, 63 percent of unbanked households reported using nonbank financial services within the past 12 months and 47 percent said they had done so in the past 30 days.[7] To more effectively attract unbanked consumers, a number of banks said that they offer check cashing, money orders, bill payment, and wire transfer services (remittances) as gateway products to begin building relationships with unbanked consumers. A summary of fees for selected services to non-accountholders is shown in Table 1.

[7] The 2013 FDIC National Survey of Unbanked and Underbanked Households, October 2014, page 9, available at www.economicinclusion.gov.

> "Our intent in the beginning was, let's get these unbanked . . . consumers in the door and give them a pathway to the financial system so when they're ready and when they choose to, then they can get a checking account, they can get a regular savings account, they can move on into things like loans, and they'll have access to financial advice and guidance and that sort of thing."
>
> — Bank Executive

Six of the 11 banks interviewed discussed "gateway" financial services they currently provide to non-accountholders. As Table 1 shows, check cashing was the most common service offered. Fees for this product vary from 1 percent to 3 percent. Some banks set fees to compete for check cashing customers.

> "We've been comfortable slashing prices to close to nothing, to taking 50% off of what the check cashers charge, to arbitrarily taking 25 basis points off here and there just to see what happens. What we found is that our customers are very responsive to pricing as far as increasing the volume of people coming through the door to cash checks."
>
> — Bank Executive

The extent to which banks monitor the number of check-cashing non-accountholders who transition to traditional checking accounts varied. Transition rates among banks in the study that monitored them ranged from less than 7 percent to 25 percent.

> "When we first launched . . . there wasn't a product suite . . . It was really check cashing, followed with financial education. We continued to add to the . . . product suite . . . Historically, it would probably be 10 percent to 15 percent of those who were check cashers that would eventually become . . . accountholders. [Today, with our newest low-fee account in the suite], it's around a quarter of folks that are check cashers that end up becoming accountholders . . . which we felt fairly positive about."
>
> — Bank Executive

In addition to check-cashing services, several banks offer bill payment and wire transfers to non-accountholders.

> "[Our] check cashing was started some years ago and it . . . allows customers, or customers that don't have traditional bank accounts, to cash checks, pay bills, send and receive money through [a third party] . . . and we also have a reload card option that allows customers to be able to load money onto a prepaid card. So this product was designed with the intent to be able to serve, as you know, the unbanked and underbanked community, a large population that exists within our core footprint."
>
> — Bank Executive

To be viewed as an alternative to nonbank providers, one bank offers multiple services in one location.

> "A lot of times consumers have to go around from provider to provider because there's limitations on the checks that they'll cash or they don't offer all of the services that consumers are looking for, and so we felt like that was a big barrier for this customer segment. So our goal was to try and offer all the services that they were looking for under one roof so that they weren't having to go from place to place to try to carry out their financial management. . . . As a result, [the bank] launched its suite [of products] which includes a prepaid card, check cashing services, and [third party] money remittance and bill pay."
>
> — Bank Executive

Table 1. Summary of Fees for Selected Services to Non-Accountholders

BANK	CHECK CASHING	BILL PAY	WIRE TRANSFER
BANK 1	Only for checks from a select list of businesses and companies. Checks from client companies are cashed free; others have a fee of 3% or $10, whichever is more.	Not offered	Not offered
BANK 2	1.86% (min. $2)	$1.50	Bank provides services through third party, which sets its own fees.
BANK 3	1.5%; every 5th payroll or gov't check is free.	Not offered	Not offered
BANK 4	**Own Bank Checks:** $10 or less: no charge $10.01 or more: 1% **Printed Payroll and Gov't Checks:** $1,500 or less: 1.5% Over $1,500: 2% Other Bank Checks: 3%	Bank provides services through third party, which sets its own fees.	Bank provides services through third party, which sets its own fees.
BANK 5	1%	$1	Bank provides services through third party, which sets its own fees.
BANK 6	US Treasury/Payroll Checks: 2% Other Checks: 3%	Not offered	Not offered

Note: Anonymity of banks interviewed in the study is maintained by referring to them as Bank 1, Bank 2, etc. in each table. Banks referenced in one table (e.g. Bank 1) are not necessarily the same banks referenced in other tables.

2. Low- or no-fee transaction accounts

Slightly more than one-third of the banks interviewed offer low- or no-fee transaction accounts. As shown in Table 2, none of these accounts allow overdrafts on payments made with insufficient funds. One of the banks charges NSF fees, while three banks offer accounts that are consistent with the core principles of the FDIC Model Safe Accounts template.[8]

One of the banks interviewed explained how institutions can address barriers impeding unbanked consumers from opening bank accounts.

> "Number one, it's removing the 'gotcha moment' from banking. So, no balance requirements and activity requirements [which would result in fees], and no overdraft fees. Those instantly blow that concern for a consumer out of the water. That instantly puts you on sure footing in the mind of the consumer . . . [When we launched our checkless checking account with these characteristics,] it was a pretty big marketing campaign: TV, newspaper, Internet, to drive a lot of acquisition . . . We saw immediately an actual impact in check-cashing volume decrease, because there were so many opening up the accounts."
>
> — Bank Executive

[8] The FDIC Model Safe Accounts template is described in the FDIC Model Safe Accounts Pilot report, available at www.fdic.gov/consumers/template/.

Table 2. Features of Low- or No-fee Transaction Accounts

BANK	MONTHLY MAINTENANCE FEE	WAIVER OF MONTHLY FEE WITH DIRECT DEPOSIT	USE PAPER CHECKS	ONLINE BILL PAY	OVER-DRAFT FEE	NSF FEE	MINIMUM OPENING BALANCE	MINIMUM MONTHLY BALANCE	DEBIT/ ATM
BANK 1	$10	Yes	No	Yes	No, Cannot Overdraft	$0	$0	$0	Yes
BANK 2	$0	NA	No	Yes	No, Cannot Overdraft	$0	$10	$0	Yes
BANK 3	$0	NA	Yes	Yes	No, Cannot Overdraft	$25	$100	$0	Yes
BANK 4	$1	Yes	No	Yes	No, Cannot Overdraft	$0	$25	$0	Yes

Note: Anonymity of banks interviewed in the study is maintained by referring to them as Bank 1, Bank 2, etc. in each table. Banks referenced in one table (e.g. Bank 1) are not necessarily the same banks referenced in other tables.

Some banks interviewed said that their strategy was to provide low- or no-fee transaction accounts that could appeal to a broad range of customers with different income levels.

"... [Name of low- or no-fee checking account], it's a good, solid checking account that cuts across all barriers. It was developed to serve our general market . . . It's just a great product that meets the need of many different people."

— Bank Executive

Another banker said their strategy covers two potential markets:

" . . . [We] knew this [name of low- or no-fee account] was going to resonate well within this unbanked community . . . however, a lot of the design and intent was also amongst a more affluent target segment . . . the number one consideration is fees regardless how much money one makes."

— Bank Executive

Among the interviewed banks that pursued a strategy of offering low- or no-fee accounts, the vast majority felt these products were successful in engaging unbanked and underbanked consumers.

"With the [low- or no-fee product], we would say that as we're acquiring new-to-bank clients, [we also show them we] have other account options that, at times, are better suited for the individual and [that they] completely qualify for. And they would experience no fees, none of those gotcha moments, and would also benefit from additional services. That's always the goal—make sure it's the right fit. I think we're doing a decent job at that—of providing the right fit for individuals that are coming in for that specific account . . . And then, for those that are opening that account, seeing them grow with the bank."

— Bank Executive

These accounts serve to help bring unbanked and underbanked consumers more fully into the banking system. As several banks noted, once consumers become established in a basic, entry-level account, it is natural for them to grow into more advanced transaction accounts, savings accounts, and credit products in time.

> "I think we have been very pleased with the product and how it has such a broad appeal to customers across our whole banking system, so it's been very important to them. . . . I think, in large part, most customers stay in that account because it's the one that fits them best. Now they may open other accounts also—Money Market accounts or IRA accounts, or whatever—but we have a broad percentage of our customer base in our [low- or no-fee account]."

— Bank Executive

One of the challenges of offering low- and no-fee accounts is their profitability. Some banks said that these accounts tend to be less profitable than other products they offer. Several described the internal discussions they had when the account was being considered for the marketplace. These banks decided to move forward with the accounts because of the potential for establishing longer-term customer relationships.

> "'How are you going to make money off of a product that's not charging fees?' That was an internal decision that we had to make because we thought it was going to be the right thing to do. It was going to drive consideration in the marketplace, and in the end, we would win by winning the full relationship."

— Bank Executive

3. Second-chance checking accounts

Two banks that we interviewed offer second-chance checking accounts to consumers with negative information (other than fraud) in databases used for account screening. Both banks said that their second-chance accounts offer customers the opportunity to transition to a traditional checking account if, after six months, the accounts are found to be in good standing.

One of the banks described periodic reviews of their second-chance checking accounts as an opportunity to determine whether the customer is financially ready to graduate or transition to a traditional checking account.

> "[Based on the] . . . graduation or migration strategy that we currently have to systematically upgrade our [second-chance accountholders], we do see about a 40 percent success rate of those accounts being upgraded. . . . We have a periodic review scheduled for them and we look at it at the end of their 6th, 12th, and 18th [monthly] cycle periods. So they have more than one opportunity [to graduate to a standard checking account]."

— Bank Executive

These second-chance accounts use paper checks and have monthly maintenance fees ($7 for one bank and $10 for the other) that cannot be waived. These are not low-fee accounts. The primary value of these accounts is to give individuals who otherwise would not be able to open an account, an opportunity to re-enter the banking system.

A few nonprofit organizations said that several banks offer consumers an opportunity to open second-chance accounts with the stipulation that they enroll or complete an approved financial education course. One nonprofit executive described a second-chance product that combines low-fee, entry-level savings accounts with financial coaching or counseling to help consumers re-enter the financial mainstream.

> "[For] folks that are blocked because of [being listed in databases used for account screening], it's one way to help these folks get accounts. . . . It means you have to go to financial counseling before you can open the account. . . . I think the financial counseling definitely helps. Having a coach or a counselor working with a client in the long-term, will definitely help them to open the account, manage the account, and keep the account open."

— Nonprofit Executive

SECOND-CHANCE SAVINGS ACCOUNTS

In addition to the two banks that offer second-chance checking accounts, two other banks in the study offer second-chance savings accounts. The purpose of these accounts is similar to that of the checking accounts—to provide access to consumers who are ineligible for traditional accounts because of negative information about their financial history (other than fraud) that is listed in databases used for account screening. Features of these particular savings accounts include no monthly fees, ATM access (no debit function), and low minimum opening balance requirements ($25 or less).

4. General purpose reloadable (GPR) prepaid cards

More than half of the banks interviewed offer general purpose reloadable (GPR) prepaid cards, another type of low- or no-fee transaction account. These GPR cards do not allow overdrafts and do not charge NSF fees. As Table 3 shows, all of the GPR prepaid cards offered by the banks we interviewed charge a monthly fee, although two banks waive the fee under certain circumstances, such as when the customer uses direct deposit or makes a minimum deposit each month. Fees for loading funds onto a card account vary, and in some cases, depend on how the funds are loaded. For example, Bank 6 has a $1 load fee and a $9.95 monthly maintenance fee. In contrast, Bank 1 has no fee if funds are loaded at its branch or at one of its designated ATMs (in this case, a subset of ATMs with certain advanced technologies) and a $5.00 monthly maintenance fee. None of the prepaid cards offered by these particular banks have a minimum monthly balance, while three of the six prepaid cards have a minimum opening balance requirement.

Banks in the study offer GPR cards pursue one of the following three strategies: (1) the card is offered as the institution's

Table 3. Selected Features of Bank-Offered GPR Prepaid Cards

BANK	ACQUISITION FEE	MONTHLY MAINTENANCE FEE	WAIVER OF MONTHLY FEE WITH DIRECT DEPOSIT	LOAD FEE	MINIMUM OPENING BALANCE	MINIMUM MONTHLY BALANCE
BANK 1	$0	$5	No	$0 at bank branches, if direct deposit, or loaded at bank's designated ATMs.[1] No bank fee at retail locations; retailers may charge a fee.	$25	$0
BANK 2	$0	$4.95	No	$0 at branches. No bank fee at retail locations; retailers may charge a fee.	$0	$0
BANK 3	$9.95	$3.50	Yes	$0 if ACH credit or payroll load	$25	$0
BANK 4	$4.95	$3	No	$2 at branches (Free with direct deposit)	$50	$0
BANK 5	$4 (Free with check cashing)	$5	Yes (with direct deposit of $500 or more/month)	$3 (Free with bank's check cashing service or loaded at Bank's designated ATMs).[1]		
BANK 6	$0	$9.95	No	$1	$0	$0

Note: Anonymity of banks interviewed in the study is maintained by referring to them as Bank 1, Bank 2, etc. in each table. Banks referenced in one table (e.g. Bank 1) are not necessarily the same banks referenced in other tables.

[1]GPR prepaid cards can be loaded at a subset of the bank's ATMs with certain advanced technologies.

low- or no-fee transaction account option, (2) it is offered to consumers listed in databases used for account screening for reasons other than fraud as a second chance account, or (3) it is one of several transaction products offered to any customer, including unbanked and underbanked consumers. One bank executive explained his institution's strategy of offering GPR prepaid cards to check-cashing customers as a gateway to the mainstream financial system.

> "So they come in, they've been cashing checks with us, our associates say, especially if they come in with a big check, 'Look, we do have a [GPR prepaid card] that you can put this on. It's safer. It's more secure. If you lose it, it's replaceable. Instead of walking out of the bank with a pocket full of cash, you can put it on the plastic and it can really help you also manage your funds.' Because then they can access online banking and they can see the inflows and outflows, they can build a budget and that sort of thing. So they've come in and cash a check, then we get them to put it onto the [prepaid card] progressed now closer— I guess to a traditional relationship with us because of the way that the prepaid card works. Then I would say from there that they move into adding a savings account to it and maybe eventually then open up a checking account. At this point in time I don't have the data to support that [transition], but it's anecdotally from some of those things that we've seen."
>
> — Bank Executive

5. Small-dollar loan products

Several banks that we interviewed offered small-dollar loans, which are installment loans that amortize the principal over multiple payments. A large proportion of the banks interviewed said that the primary reason their organization offers a small-dollar loan product is to provide consumers with an alternative to the small-dollar credit offered by nonbank financial services providers.

> "We felt like we needed something for the segment of the population on the loans side . . . [this product functions as an] alternative to payday loans, as a way to start building and repairing their credit."
>
> — Bank Executive

Several banks suggested that making small-dollar loans available also gave them an opportunity to educate borrowers.

> "[Our loan product] is . . . breaking the payday lending cycle and . . . it's a financial literacy program . . . And rather than hand them green, pink, and blue monopoly money, we felt like using real cash in the deal as a way to really make a lesson stick and try to see people successfully come to the program who really could become future bank customers. So the bank—even from a profit and loss point-of-view—looked at how to attain new successful customers that will be future customers of the bank in a normal performing way."
>
> — Bank Executive

In addition, these banks said that their small-dollar loan product helps them meet important objectives, such as improving the consumers' general level of familiarity with banks and providing a service to the community.

Loan amounts ranged from a minimum of $500 to a maximum of $3,000 (see Table 4). The interest rates charged for loans varied from a low of 5 percent APR to a high of 24.99 percent. Most of the banks limit the number of loans that a single borrower can take out, although the limits vary.

Table 4. Summary of Banks' Small-Dollar Loan Products

BANK	LOAN AMOUNT	LOAN TERM	INTEREST RATE (APR)	LIMIT ON NUMBER OF LOANS FOR A SINGLE BORROWER	FINANCIAL EDUCATION OR COUNSELING REQUIREMENT
BANK 1	No minimum or maximum; typically $500	12 months or less	6.24% to 16.24% (based on credit score)	None	No
BANK 2	$500-$1,000	12 or 24 months	5%	Customer limit of 4 loans	Yes
BANK 3	$500-$1,500	6-12 months	16%	Max of 3 loans per year. Loan proceeds may not be used to pay off an outstanding loan.	No
BANK 4	$1,000-$3,000	1 year	24.99%	Customer limit of 2 loans	No
BANK 5	$500-$2,000	12-24 months	10%	Max of 3 outstanding loans at any given time. Borrowers can only get a second loan once they have paid out at least 50% of the first loan. If they pay off three loans, customers can move into a traditional loan.	Yes

Note: Anonymity of banks interviewed in the study is maintained by referring to them as Bank 1, Bank 2, etc. in each table. Banks referenced in one table (e.g. Bank 1) are not necessarily the same banks referenced in other tables.

To help consumers hone their financial education skills, some banks offer financial education or counseling along with their small-dollar loan product. One bank, for example, requires all borrowers to complete its financial literacy seminar before receiving the loan. Another bank encourages borrowers to participate in a financial education course offered by a local nonprofit consumer counseling agency and offers participants who complete the course a $25 prepaid card. While this bank does not compel first-time borrowers to complete a financial education course, it does require borrowers to do so before obtaining a second loan.

Including a savings component as part of a small-dollar loan product is one way to help consumers plan and set up funds for future financial needs. Several small-dollar loan products offered by banks in the study provide for a portion of the loan proceeds to be deposited and held in a savings account or certificate of deposit for the loan period. Another product includes an optional savings component funded by loan payments in excess of the amount due. For example,

"Let's say their payment was $78, we would issue a loan ticket or that deposit ticket for $100. First they'd come in and we'd get them to open up a savings account, get them to open up the loan, tell them, 'Well, here's your loan payment. This is the way the program works. It's going to deposit this amount of money into your savings account. You just bring in your [loan] ticket for $100 and go to the teller and they drop it off [deposit to savings], and . . . the loan [payment] automatically debits the saving account,' leaving them a little bit of reserve money in the savings account. Actually, when we first started developing that, I was surprised at the level of people who actually left money in there. . . . A few of them learned that they can just not bring their coupon in and make the loan payment straight and bypass savings, but still none of it was mandatory."

— Bank Executive

CREDIT BUILDER LOANS

Many of the small-dollar loan products in the study were designed as alternatives to payday loans. However, numerous banks also said that their small-dollar loan product provides borrowers an opportunity to build or rebuild their credit history. With one product, for example, borrowers obtain a loan of up to $2,500 but do not actually receive access to those funds. Rather, the borrower makes loan payments that are deposited into an interest-bearing savings account at the bank. Borrowers who make timely loan payments benefit from improving their credit score. In addition, once the loan is paid off, (in one to five years), the borrower has built savings that equal the loan value plus interest.

The extent to which consumer counselors are aware of banks in their local communities that offer small-dollar loans varied.

> "I've referred a lady to [the local bank]. She had a payday loan that was pretty outrageous. She went to the [bank] and got a small-dollar loan to pay off the payday loan. It was a positive, good experience for her. . . . [Consumers] are really just not aware of it [small-dollar loans]. The banks are the only reason I started doing this. And for most of the people that have gone to the banks that we're working with, they find out about it from word-of-mouth from somebody else that's gotten one. It's not like they're promoted at all."
>
> — Consumer Counselor

Following is one consumer's reflection on his experience obtaining a small-dollar loan.

> "It was good experience, I've got to admit. I'm happy . . . if I get a loan from a bank, they might give me 12, 24 months. And like I said, interest rate is low."
>
> — Consumer

B. Communicating Relevance of Bank Products and Services in Consumers' Financial Lives

Banks that we interviewed said that it is not enough to simply create a range of products and services for the unbanked and underbanked. It is also essential to have a marketing and communications strategy that ensures that unbanked and underbanked consumers are aware of these offerings. Several banks described using consumer market research to deepen their understanding of how best to communicate with and market to these consumer groups.

> "Last year, we did a focus group and we paid a research firm to go out and find customers that were our customer choosing traditional bank services, our check-cashing services, and also nonbank customers. . . . Through the research we found that many of the customers using check cashers today have been doing so because it was a generational view for them. They recalled stories of standing in lines of local check cashers with their parents as kids. That was their view of banking, the place to get your financial needs taken care of. And so we knew, . . . there was a real opportunity for us to continue to look for ways—through community partnerships and the messaging and content that goes out to this particular customer segment—to make sure that they know that they're welcome into our [bank's] doors and that what we have available does not require them to have a bank account with us."
>
> — Bank Executive

Many banks said that they were more effective in communicating with unbanked and underbanked consumers when they collaborated with local community organizations that had ongoing relationships with these consumers. These partners were particularly useful in helping banks better understand cultural and social sensitivities of unbanked and underbanked consumers in their local markets. Several banks discussed working with local nonprofit organizations to reach out to the unbanked to market their check-cashing services with the intention of attracting these consumers to their branches and helping them feel more comfortable with their institutions. Once a relationship was established, the banks continued to communicate and educate these consumers about their other products and services through branch tellers and customer service representatives.

> "I think the overall marketing strategy is to make sure everyone knows that they have an option available to them regardless of where they are in their financial journey. An unbanked person can come into a branch and start with check-cashing services. They leave being able to get their business done. That client will be more inclined to come back and do business with us, and then once they're on a better footing can grow into different products."

— Bank Executive

Several banks also underscored the value of direct conversations with customers that allow banks to understand customer needs and introduce them to appropriate products to meet those needs.

> ". . . [W]e will continue to have conversations with customers about what is available to them so that they know that if they want something, they can get it. We also have a couple of savings-secured type loan products. We have a line of credit and a loan, and we have conversations with them about that. [We] know that if they have a savings account, they might be eligible to get a line of credit or to get the loan for those liquidity needs that they might have—meaning short-term, small dollar-type liquidity needs. So we do continue to talk to them, give advice and guidance . . ."

— Bank Executive

> "You have to make it personal. You have to take what they're doing, talk to them then show them what they could do with it. When you make it personal they understand. When you sit and give them 'theoreticals', they don't listen . . . Most of the staff will use a computer and sometimes they pull up . . . loan calculators out there showing them how much all that stuff adds up over a year. If you talk to them, you could find out what are their interest [costs], and then it's easy to show them what else they could be doing [with their money]."

— Bank Executive

One bank described the benefits to the institution and value to the customer of proactively reaching out and calling accountholders on the phone and having conversations about their banking needs and customer service experience.

> ". . . [T]here is a lot of attention being paid now with calling, having conversations [with] customers. Again, maintaining the line of communication. You can almost always assure yourself of circumventing problems, and so branch managers [make calls to] a list of customers they're looking to reach out and talk to. You know, 'Are we meeting your needs? Are there any other services that we could offer that might benefit you?' So those are some of the efforts that are made to maintain the client base that we have."

— Bank Executive

One consumer counselor's observation reinforced the appeal of speaking directly to a "live" customer service representative.

> "I think clients might be more inclined to call the bank to discuss when they're having problems rather than just walk away and close the account if it was easier to get in touch with a real person. Like if they actually have [the business] card of an actual human at their bank branch where they opened the account and didn't have to go through this system of pressing buttons and waiting. I just think that's

> simple. Like if you knew you could call and have someone pick up the phone and talk to you, then you might be more likely to try to work out the problem rather than just walk away."

— Consumer Counselor

Banks said that through market research and collaborations with local community-based organizations, they gained a better understanding about communicating with unbanked and underbanked populations in their market, while nonprofit organizations, consumer counselors and consumers described additional, potentially effective methods for banks to communicate with consumers.

C. Consumer and Consumer Counselor Perspectives on Marketing Efforts

A number of banks interviewed described how they strategically market their products and services to meet the needs of unbanked and underbanked households, yet many consumers said that they are unaware of bank products and services that either provide alternatives to using nonbank providers or are low- or no-fee transaction and savings accounts.

Consumers and counselors said that bank marketing messages need to be clear and that the features and fees for their various products and services need to be transparent.

> "More clarity I think, just clear-cut communication, clear language around the account. I don't know if that's a feature, per se, but some sort of marketing initiative that makes it super clear to understand exactly what you need to do to maintain the account. I think we could help them."

— Consumer Counselor

A number of counselors and consumers suggested that banks create tools (e.g., budget spreadsheets and product brochures) that bank staff can use to educate consumers about the features and fees of various products and services. Using these tools could generate richer conversations that may ultimately help consumers make more informed decisions about their financial circumstances. One counselor described how a bank could help a consumer compare the costs of having a bank account with using check cashing services.

> "You can lay out the fees of the bank and the fees of the check casher and say, 'Here is what you are going to pay if you don't use check cashers, and this is what you going to pay the bank, and this is sort of like the difference.' That will help in visualizing and see how expensive it is to use check cashing."

— Consumer Counselor

Consumers benefit from obtaining simple, easy-to-understand language about credit products, while banks gain from offering credit products to knowledgeable borrowers who are more likely to accept loan terms that they understand.

> "When you go to [get] a payday loan, you know for this dollar amount, it's gonna cost this. It's almost like they put it on the table, so it's real easy to comprehend. Whereas, you don't really know—the bank seems like a giant, and they really don't know how to comprehend what's going to happen, how interest will compound. . . . The bank may feel a little bit intimidating to them, because they don't know how things are happening. You get statements and letters . . . some of the people that I deal with, they don't really read well. . . . Because if [a bank] gave them a whole statement of information about what would happen with their money and the advantages in there, they couldn't break it down and comprehend. But they can comprehend [from a payday lender] that if you borrow $100, you're gonna pay $125 back."

— Consumer Counselor

Bank products and services, and thoughtful marketing strategies are essential components of broader bank efforts to develop relationships with unbanked, underbanked, and LMI consumers. Attracting consumers to banks and convincing them that bank products and services are often cheaper and offer better long-term benefits than those offered by nonbank financial service providers is the first step toward building these relationships. Maintaining these relationships over time is another crucial component of bank efforts to serve unbanked and underbanked consumers.

V. Bank Strategies to Help Sustain Banking Relationships with Consumers

Banks can strengthen their relationships with customers and potential customers through efforts beyond the provision of specific banking products and services. Study participants described institutional efforts to support the bank's investments in products and strategies for unbanked, underbanked, and LMI consumers. Highlighted strategies include staff training, development, and retention, which ensure that consumers encounter bank personnel knowledgeable about their institution's products and services; and technology tools that help consumers open and manage accounts.

A. Enhancing Staff Training, Development, and Retention

Several banks and consumer counselors noted the importance of hiring, training, and retaining staff to better communicate and to build and maintain relationships with consumers and partners.

Describing their experience with a tax-time savings product, one consumer counselor explained,

> "I think the relationship is key. We work with two [branches of the same bank], one in [town A] and one in [town B]. Since I've been in [town A], I've been with the same personal banker. Her name is Flora. I have clients who opened their account with us from our program in 2013, and they still have that account. . . . And they'll be like, 'Oh yeah, I went to the bank, and I saw Flora.' In [town B], the minute their first year is done, they close [their] account and they're done. They're done with the program. I've worked with three personal bankers, and like three or four branch managers. [The client doesn't] know who to go to in case they have a question. So it's very noticeable that in [town B], literally, a year the program ends, they lose their account, and they're done. In [town A], people stay with the program for the three years that they can."

— Consumer Counselor

Banks and consumer counselors explained the importance of making sure branch staff are familiar with the bank's products and services, including gateway products and services, low- or no-fee transaction and savings accounts, the features and fees of each, and how these compare to nonbank alternatives.

> "We've . . . had to invest heavily in training [for our on-line account opening tool]. Because you want to make the process as smooth as possible and as transparent as possible, but that relies heavily on making sure that our partners, and frankly our colleagues in the branches, understand what the processes are and are clear about the needs of the consumer."

— Bank Executive

Counselors suggested that branch staff have an appreciation for the cultural and social background of consumers as well as language skills needed to communicate with members of the community.

B. Developing Internet and Mobile Tools to Streamline Opening and Managing Accounts

Consumers suggested that banks could develop and use tools to monitor and update consumers about their accounts.[9]

> ". . . At [my bank], they send me a text or [email] saying, 'Your balance, for example, is less than $50.' And they let you know ahead of time. That way one realizes that they may overdraw."

— Consumer

One exchange between two focus group participants underscored the fact that consumers have come to expect more efficient communication from banks, through text alerts for example, but not all banks offer this type of service.

[9] The FDIC, in a separate study, conducted qualitative research to better understand the ways in which mobile financial services (MFS) can help increase the participation of unbanked and underbanked consumers in the financial mainstream. In this study, some consumers reported that MFS alerts and monitoring tools have helped them reduce fees, better track their finances, and improve on-the-spot decision-making. See "Opportunities for Mobile Financial Services to Engage Underserved Consumers: Qualitative Research Findings", May 2016, available at www.fdic.gov/consumers/ccommunity/mobile/.

> "[With cell phone companies, if] you're over a certain amount of data, 75 percent, they'll actually send you a text, 'Hey, you know what? You are using 75 percent of your data. For an extra $10 a month [you can increase your data allowance.' Banks could do] things like that."
>
> "Well, [my bank texts] me, 'You're below a certain amount.' So I know, OK?"

— Consumers

In addition, consumers and counselors said that additional opportunities exist to leverage technology to create mobile- and Web-driven tools that can help customers manage and maintain their accounts. For example, several consumers suggested that banks offer an early warning through text alerts, emails, or phone calls when accounts are about to be closed by the bank. One consumer said that she wished her bank had given her a warning or not let her make a purchase before they closed her account. Another said that he received "no notification" that his account was being closed for non-activity.

Using technology to provide consumers with alerts about account fees, low balances, and possible account closure are cost effective ways to help them manage and maintain their accounts.

> "They eat your money up if you don't pay attention. . . . I think I had $99 in there and I didn't know, and each month it ate it up [with fees] until it was zero. Then they sent me a letter saying [the account has a negative balance]. I said, 'Why didn't you let me know? I'm a member. Why didn't you say, 'Hey, it's in danger?' And I just gave them that $100. It was gone. . . . I switched banks."

— Consumer

Nonetheless, consumer counselors tend to agree that using "basic" technology remains an important communications tool for banks to use.

> "Pick up the phone. I mean, have a conversation. You don't know [your account is going to be closed] until after it happens. Many of our clients . . . are transient. They don't get a lot of these notices until it's too late, and then they'll get this thing with this negative number because they put that same check through 47 times and there's still no money in the account. Then, it becomes hopeless."

— Consumer Counselor

VI. Bank Strategies to Ensure Business Objectives Are Met

Organizations, including banks, create strategies to meet their business objectives and achieve goals. One goal of banks in this study was to engage unbanked and underbanked populations and to encourage their participation in the financial mainstream. Numerous participants shared their perspectives about challenges they encountered when pursuing this goal and lessons learned that should smooth the process going forward.

Three main themes evolved from these discussions with bank executives and other participants:

- taking steps to help ensure that their institution's strategy and long-term commitment to developing relationships and encouraging mainstream participation by the unbanked and underbanked are clearly understood and supported by management and staff at all levels of the organization.
- assessing and resolving implementation issues for strategies in support of efforts to better serve the unbanked and underbanked populations.
- making institutional investments in technology, staffing, and training that support efforts to engage these consumers and encourage their participation in the banking system.

A. Internally Communicating the Institution's Commitment to Serving the Unbanked and Underbanked

Numerous banks discussed the importance to their organization of educating bank personnel about the institution's strategy and long-term commitment to engaging unbanked and underbanked consumers. This includes educating staff at all levels about the value proposition of offering products and services needed by these consumers, such as low- or no-fee transaction accounts. Through education, staff can better communicate and build long-lasting relationships with unbanked and underbanked consumers.

> "We've had extensive training with our associates. The first part has been a big cultural shift is the fact that we'll offer any of these services, and you don't have to have a deposit account with us. So whenever someone says, 'Oh, you'll cash checks for non-customers?' I'm like, 'No, we don't. You can come in, enroll in [our check-cashing program], and we'll cash a check for you. You're a customer at that point.' So it's that mindset of, you don't have to have a deposit account with us to be considered a customer. We really have to drill that into our associates . . . and then training to say what the benefits are not only to the customer, but to the bank. So our associates need to understand both sides of that so that they understand how to sell it or how to find what would more fit the customer's needs, and I'll give an example of this.
>
> We had a customer that was coming in and buying several money orders every month, and the associate started looking at what the money orders were for and talking to the customer about it. That associate then looked up the billers on [a third party] bill pay and said, "You could pay all these right here. You don't have to run around with the money orders going from business to business." And the customer was like, 'You're kidding. That's great. You just saved me gas money and time and everything else.' So as long as our associates understand what the benefits are both ways and how they can progress that conversation, it starts to come to them intuitively."

— Bank Executive

Banks, as well as nonprofit organizations, spoke about the importance of banks making a commitment to the community to engage unbanked and underbanked consumers by hiring local residents who have a social and cultural understanding of the community. These staff are considered vital to helping the institution reinforce its commitment to building long-lasting relationships with these consumers.

> "We have tellers who are from the community. We've got customer service reps who are from the community. They all understand that the bank has a mission to encourage this behavior without being paternalistic about it."

— Bank Executive

Several bank executives described the importance of educating staff at all levels on the value proposition of offering products and services that are especially needed among unbanked and underbanked consumers, such as low- or no-fee transaction accounts and small-dollar loans.

> "You talk about barriers. . . . Probably the biggest barrier we had was internal, in that we've have lenders that have learned and are good at lending, have been doing it for 20-25-30 years, and when we start talking about loans to people, in many cases with very poor credit scores or no credit at all, they just looked at us like we were crazy. [They said,] 'That's not the way you do that. We don't make money like that.' So it took a little bit of convincing for a lot of people, particularly the older bankers that we have, but in many cases those people were part of the programs, they were part of the training—the financial training part. And as they took part in it and made some loans, and saw the tremendous benefit that was being provided to the folks that were going through the classes—they, in many cases, have become the biggest supporters of the program now."

— Bank Executive

Nonprofit partners spoke about their experiences working directly with consumers and the importance of understanding the local community's history and culture. They described helping banks by providing cultural and sensitivity training to bank staff.

> "We provide training for our bank partners, which include the [Customer Service Representatives] in all of the branches who need to understand that this is a population that is not used to interacting with bank personnel. They are not used to jargon, so if you start talking 'NSF' and 'OD' and all these other things, they have no clue what you're talking about. So we try to educate our partners as to ways in which to best approach these potential people opening accounts."

— Nonprofit Executive

Several consumer counselors emphasized that banks must align their IT infrastructure and back office functions with their programmatic efforts to avoid implementation challenges.

> "Our organization offers a no-service-fee account in partnership with a bank. . . . It's supposed to be no service fees, but when [our clients] go, we send quite a lot of volume during tax time to get these bank accounts made. They flood the banking center, they flood the banks and there's only two bankers working. So they don't get the attention that is needed [from] the bankers, because they're not getting any commission from these accounts . . . So it's pretty much the CRA requirements that each bank has. So [the program] really get no attention, [the bankers are] supposed to get trained on what our program exactly is. But the training only happens once, and there's a lot of turnover at the bank. . . . Something gets lost in the back office on the back end of things . . . where there's no label that this is no service [fee] account. So people are getting charged service fees . . . they go to the bank and they're like, 'Why are you charging me service fees? They told me that this wouldn't be on it.' And they say, "I don't know what you're talking about."

— Consumer Counselor

A few nonprofit executives and counselors recommended that banks create a program leadership structure that allows for a seamless transition to new leadership if staff changes occur.

> "I just need a lot more responsiveness from whoever is doing the account linking, the account maintenance, making sure that [I can view all the accounts active under our program]. . . . I think [it's] turnover on the bank's end, in terms of employees . . . I've been emailing one guy for about four or five months with no reply. And so, I think the guy might have left and my point of contact might have changed, so nobody tells me who it is . . . and so at a conference call, I'll be told that somebody's going to email me with a list of accounts, and then somebody—a different department—emails me a list. And then, another time last week, they asked 'me' for the list. [I said] 'I don't provide you with that list, you provide me with that list.'"
>
> — Consumer Counselor

B. Assessing and Resolving Implementation Challenges

Several banks said they adjusted their unbanked and underbanked strategy during the implementation phase of a product initiative to better meet consumer needs and expectations. For example, one bank executive described how they assessed and adjusted their strategy to competitively offer small-dollar loans as an alternative to payday lenders.

> "At the end of the day, the consumer who uses a payday loan needs access to small-dollar credit, and in order to win their business, we had to have simply a better, faster, cheaper product. We had to be more accessible, more convenient, easier to understand, and at a better price point, and we've really hit all four of those. To give you an example, we found out we're meeting—we're exceeding customer expectations in terms of the turnaround time for approval. So, if you sit in a payday loan office, it's going to take 10 to 20 minutes to get your loan approved. Now we're doing it in 5."
>
> — Bank Executive

Another bank executive discussed some of the experimentation they did to develop their strategy for offering products and services to unbanked and underbanked consumers.

> "As a bank, in looking at the universe of unbanked and underbanked, we had tried many experiments in the past locally, and I'll just highlight a few, . . . for example, we bought a check cashing store, brought it into the lobby, cut the fees in half, and then encouraged people to open up checking and savings. . . . I think, in looking at this strategy, a couple of learnings. [W]e pulled out of our check cashing experience . . . one [lesson] is the bank is not necessarily the trusted source. In most cases, it's the last place people are going to go. So as a banker, you do have to get over your ego, and it took us awhile to understand that people would rather go to a check cashier than a bank, most every day of the week. So, for us it was figuring out who do we partner with, who are the trusted sources, and where do the unbanked and underbanked hang out in mass, in scale?"
>
> — Bank Executive

Similarly, another banker shared the steps his institution took to assess and resolve issues related to their product strategy for specific communities in their market area.

> "We recognized that our footprint . . . covered territories and communities where the products that . . . we were focused on selling were products that did not resonate. So investment accounts, mortgages . . . these were some of the products that there was not high demand for in some of these areas. So instead, looking at the population that we were serving within some of these communities, we looked at what is of need. And so, check cashing was one of the highlighted services that came to bear, and we felt [this product] was a way of being able to introduce a large segment of the population that was around our branches within certain communities to our bank, and to provide them services that resonated that they would use."
>
> — Bank Executive

When addressing collaborative efforts, several nonprofit executives discussed some of the issues that can arise, such as incomplete communications, lack of execution, or ineffective follow-through on commitments.

"... [A]ll of the financial institutions had been vetted and were committing to make free and low cost accounts available. . . . But the banks themselves weren't necessarily training their staff on those accounts. Some of the banks were only having people open those low cost, no-fee accounts at certain branches. It was really difficult. I mean really, really difficult to get people [in] with those accounts."

— Nonprofit Executive

Comments from numerous consumer counselors engaged in efforts with banks further underscored the importance of exchanging timely feedback, assessing collaborative efforts, and implementing changes, as needed, to increase effectiveness and achieve scale.

"Here's the reality. I worked [on a partnership program with a bank] helping clients, and one client into a special saving [product]. This is a six-month, fixed period account. At the end of that six months, you will get matching [funds]. So, here comes our client [who reaches] the six month period. The bank just [told] him to close the account. They're not really encourag[ing] the client to keep that type of account, because although as per the [program rules] you will still enjoy a one year free of charge, they just tell them to close it. Close it. So they just want to get rid of this kind of account."

— Consumer Counselor

Failure to resolve implementation challenges can have an unintended ripple effect. It can lower consumer participation, damage the reputation of the bank and community partners, and erode consumer trust. Several counselors expressed these types of concerns.

"A lot of the failure really comes down to the organization. We're the ones representing them as our program. It's hard too, because we're going to run this all again and try to get things ironed out, but it's really hard to promote my own program because I don't have the support of the bank. So I can't tell my clients, 'Hey, this year, No problems.' I don't even trust that there's not going to be any problems."

— Consumer Counselor

C. Investing in Technology, Staffing, and Training

Many banks view technology as an effective tool for achieving strategic goals aimed at engaging unbanked and underbanked consumers. Several banks in the study said they had invested in innovative platform development that streamlines the account opening and monitoring processes. Often, these technological investments are shared with nonprofit partners to leverage resources and gain scale in participation. For example, one of the banks in the study created customized online portals for their nonprofit partners to broaden the number of channels available for opening bank accounts for clients.

"... It is inevitably about how you build out a platform that allows the nonprofit to present a solution, in this case, a savings account for clients that has an ATM card. It's a full savings account, no different than you or I would receive basically from the bank. . . . Then if you're going to have the nonprofit provide financial capability and coaching, and building of a [financial] history for people that the nonprofit is so committed to, then the nonprofit can see the balance of all these accounts . . . they're able to actually see across the behavior, the patterns, the history of their clients in terms of savings just as they can on credit. I think bringing a technology that allows them to do that has given them the ability also to understand the behavior and the needs of their clients and to think about the services that they require. . . . Now we're embarking on a big technology upgrade for the nonprofit so more of their payments and receivables of funds can be done digitally or transacted by mobile. . . . We're also increasing the ability to do remote openings of accounts."

— Bank Executive

Banks that had invested in new technology said that they provided training to branch staff. When applicable, they also trained their nonprofit partner staff, who could then use the technology for unbanked and underbanked clients.

"[Our] bank partner provided us with an online platform that allows us to open and monitor an account anywhere that has Wi-Fi connection. Our staff has been trained on how to use this online portal for opening accounts, which is pretty amazing as well, because now our clients bring their documents. We have established that trust with the client and are able to open the account on behalf of the bank. Once we open the account, we give the account number to the client and they go to the bank branch to make their initial deposit."

— Nonprofit Executive

"Things like language barriers, cultural competency, general distrust and frankly dislike of banks, a misconception of the kinds of documentation that you need to open an account, all of these can be circumvented and dealt with, addressed with directly when you have a simple and transparent product but then more importantly pairing it up with a community intermediary that can provide the assurance, the advice, the coaching in [appropriate] language and employing cultural competency. So then at the end of the day the consumer of the [intermediary] client can make a much more informed decision about whether he or she wants to take on accounts to begin to build a financial identity."

— Bank Executive

VII. Major Implications of the Study

This qualitative study examines the strategies and products banks have developed to address the financial needs of unbanked and underbanked consumers. It also draws from the perspectives of consumers, nonprofit organizations, and consumer counselors to better understand how unbanked and underbanked consumers perceive bank and nonbank financial service providers, their products, and their strategies in bringing these products to market. Amassing these different experiences and perspectives expands our understanding of the marketplace where banks and unbanked and underbanked consumers meet.

The study intentionally reached out to executives at banks that have a reputation for leadership in serving unbanked, underbanked, and LMI consumers. Not surprisingly then, bank executives we spoke with reported that they provide a range of strategies and products that seem to meet the expectations of consumers and counselors that we interviewed. Similarly, bank executives indicated an understanding of the importance of providing services in accessible locations with welcoming, knowledgeable staff.

In contrast, our conversations with consumers and counselors paint a picture of a consumer marketplace where banks are often perceived as untrustworthy and unresponsive to consumer needs. While the consumers and counselors that we spoke with were not typically customers of the banks included in the study, their perceptions suggest continuing challenges. However, we remain optimistic about this seemingly contradictory set of conversations. Indeed, it is encouraging that significant overlap exists between the products and services that unbanked and underbanked consumers want and the strategies that they want banks to pursue, and the efforts that banks are pursuing.

The findings from this research indicate that promising opportunities exist for banks considering developing longer-term sustainable relationships with unbanked and underbanked consumers. We draw five major implications from the findings of this broad-based qualitative analysis that banks and other stakeholders can use to enhance their efforts to serve these consumers.

1. Recognize that Trust Is the Foundation for Strong Relationships with Unbanked and Underbanked Consumers

Lack of trust comes in multiple forms and stems from numerous causes. Unbanked and underbanked consumers may not trust banks because of their own past negative experiences or based on experiences of their friends, neighbors, and family members. Some personnel at nonprofit organizations have questioned the reliability of their bank partners, often because bank personnel do not follow through on commitments (e.g., not showing up at an event) or because staff depart the bank or change positions without suitable replacements. Adopting strategies to build or increase unbanked and LMI consumers' trust in banks is a necessary first step to increasing their participation in the mainstream financial system. Similarly, maintaining and strengthening long-term partnerships with nonprofit organizations that serve the residents of LMI communities is an advantageous strategy for banks, nonprofits, and consumers.

2. Adopt a Multi-Pronged Approach to Serving LMI Consumers

In addition to the need to build trust, banks, counselors and consumers cited a wide range of additional challenges that may hinder unbanked and LMI consumers from opening and retaining bank accounts. These challenges include consumers' unfamiliarity with banks and bank products and services and their perceptions that banks do not offer products that meet their financial services needs and are not welcoming or interested in serving them.

Banks seem to be most successful when they simultaneously implement multiple approaches to address the many salient challenges that the unbanked and underbanked populations face. These approaches include implementing strategies to build trust and familiarity, offering a range of relevant products and services, establishing accessible branches with a welcoming environment, hiring and training bank staff to serve these consumers, and engaging in strategic partnerships with local nonprofit organizations and local government agencies to deliver products and services and establish relationships within the LMI community.

3. Nurture Longer-Term Relationships with Community Partners

Bank partnerships with nonprofit organizations and local government agencies are key components in bank efforts to serve unbanked, underbanked, and LMI consumers. This is a "tried and true" strategy that, when executed well, benefits banks, their community partners, and consumers.

Nonprofit organizations and local government agencies with strong track records supporting LMI communities can facilitate stronger relationships between banks and residents of these communities, ultimately benefiting banks and consumers. Banks can provide needed financial and knowledge-based resources to help local organizations pursue their goals. To be most effective, however, these partnerships require a deeper level of engagement from banks and their partners towards nurturing a healthy relationship. Crucially, the relationship will benefit from banks and their partners maintaining communication to ensure that all parties share common, or at least complementary, goals, and that these goals are being addressed. This sort of relationship requires more active participation by personnel at higher levels of both banks and their partners, and a greater commitment of resources than a less engaged relationship.

In this study, banks and their partners sometimes expressed different perspectives on the effectiveness of their partnerships and related bank efforts for serving unbanked and underbanked consumers. While one bank touted the success of an initiative designed to open bank accounts for LMI consumers, their nonprofit partner considered the number of accounts opened to be low. Alternatively, we heard conflicting reports about the value of a bank-nonprofit partnership. The bank said that it highly valued the partnership, while representatives from the nonprofit said that their organization was not meaningfully engaged. Ideally, partners should build into their initiatives a process for regular check-ins, and, essentially, a process for adapting their implementation to ensure that all partners' goals are being addressed. This is a commitment to the program to keep the effort on track and more effectively use resources in the delivery of products and services to unbanked and underbanked consumers.

Better communication about shared goals and metrics between banks and their partners is likely to lead to greater successes for all participants. Periodic assessments with partners should help banks gain a richer perspective on the overall effectiveness of bank efforts to engage unbanked and underbanked consumers and facilitate continual improvements in their relationships with nonprofit organizations and local government agencies.

4. Use Technology to Increase Efficiencies for the Bank, Its Partners, and Its Customers

From using text alerts and communicating timely account information to consumers, to using Web portals to enable bank partners and their clients to open consumer accounts remotely, this research demonstrated that technology tools can help banks and their partners better serve unbanked and underbanked consumers. In addition to the specific efficiencies created by these tools, technology is a crucial battleground on which the competition between bank and nonbank financial services providers takes place.

We consistently heard from consumers and counselors that LMI consumers will use the financial services that are most convenient to them. For various reasons, banks likely will be challenged to compete with nonbank providers with regard to physical locations (bank branches versus check cashers and payday lender storefronts, for example), but banks can use technology strategically to help mitigate this situation. For example, banks are offering technologies, such as remote deposit capture where deposits can be made from anywhere at any time, that can increase convenience for consumers and possibly lower branch operating costs. Added convenience can be a way to reduce the costs associated with using bank services and better attract more unbanked and underbanked consumers and retain them as customers.

5. Develop an Understanding of Unbanked and Underbanked Consumers in the Bank's Market Area

Unbanked and underbanked consumers have wide-ranging perceptions about banks and their products and services, which are related to the diversity within these consumer groups. This diversity comes in many forms, including demographic diversity and diversity of experience with financial services.

Nearly half of unbanked consumers were once banked.[10] Some ended their banking relationships following the decision that banks would not be their most appropriate financial service provider at that point in their lives. Indeed, the most

[10] 2013 FDIC National Survey of Unbanked and Underbanked Households, October 2014, page 18, available at www.economicinclusion.gov.

common reason previously banked consumers cite for being unbanked is that they feel that they do not have enough money to keep in an account or meet a minimum balance.[11] Others closed their bank accounts following a negative experience with their bank. A third group may have had their bank accounts closed involuntarily, the result of a determination by the bank not to continue their relationship with these consumers.

Clearly the individual experiences of these consumers would shed more light on the complicated landscape of unbanked consumers. However, the overarching point is that unbanked consumers are a diverse group, and banks seeking to serve these consumers will benefit from understanding their situations beyond simply their unbanked status. Products and strategies that will attract the interest of a consumer who is unbanked because she thinks she does not have enough money for a bank account will likely be different from those that will attract the interest of a recent immigrant unfamiliar with the U.S. banking system.

Underbanked consumers are similarly diverse, but their attitudes, motivations, and perceptions about using nonbank and bank products and services are somewhat different than for unbanked consumers. Banks seeking to serve a greater share of their financial services needs will benefit from understanding those needs and how they can compete with nonbank service providers.

Ultimately, banks need to understand this diversity in unbanked and underbanked populations and the factors that motivate these consumers, recognizing that diversity likely exists even among consumers in the same community. Banks can use this information to develop more effective strategies to engage consumers.

The findings from this qualitative research build a more in-depth understanding of bank efforts to serve unbanked, underbanked, and LMI consumers. These findings also enhance our understanding of consumer and household decision making for financial services from bank and nonbank providers. This should support bank efforts to more effectively serve the financial service needs of these consumers, especially those who live in LMI communities. Overall, the findings from this study also should inform research and policy efforts aimed at promoting the financial health and well-being of consumers and their families.

[11] *Ibid*., page. 25.

APPENDIX. RESEARCH METHODOLOGY

This qualitative research study incorporated several methodological steps to fulfill its objectives, which are described in detail below. The initial step was a knowledge scan to collect preliminary information about existing bank efforts to engage unbanked, underbanked, and LMI consumers. Once these efforts were identified, the remaining steps were to collect primary qualitative data during four phases: two phases included one-on-one interviews with bank and nonprofit executives; and the second two phases were focus groups with consumer counselors and consumers.

Knowledge Scan

The knowledge scan included a literature review and interviews with banking institutions, nonprofit organizations, and government agencies identified from the literature review as leaders in efforts to bring unbanked, underbanked, and LMI consumers into the banking system. Based on the literature review and interviews with experts in the field, researchers identified several approaches banks can use to better serve these consumers, including:

- Offering specific deposit accounts and other financial products and services that help meet the needs of unbanked and underbanked consumers in the bank's market area, focusing especially on financial services as alternatives to nonbank providers and bank account features and functions that address reasons cited by consumers for being unbanked.
- Developing external and internal policies or plans of action to improve relationships with unbanked, underbanked, and LMI consumers, and help these consumers participate in the financial mainstream.

The four primary data collection phases drew on the information collected from the knowledge scan and were carried out from August to December 2015. Most of these phases were conducted sequentially so that findings from each phase could inform subsequent phases of the work.

Phase 1 (August-September 2015)

Phase 1 included interviews with bank executives involved in initiatives to encourage unbanked and underbanked consumers to open and retain accounts. The interviews were conducted primarily by telephone, with a few in-person interviews. These banks were selected based on previous FDIC research or information gathered during the knowledge scan. The selection criteria also considered the candidate bank's asset size and market area, with a goal of selecting banks with a range of asset sizes and with market areas that together cover most regions of the country. Overall, 13 banks were identified; executives at 11 of these banks agreed to be interviewed. Five banks had assets of more than $1 billion, three had assets between $250 million and $1 billion, two had assets between $100 and $250 million and one bank had assets of less than $100 million.

The interview guide covered topics including motivation for the initiatives, details about implementation, challenges encountered, lessons learned, and perceptions of success. Although the same base protocol was used for all interviews, each interview was customized to focus on specific products or strategies that had been identified as effective in reaching and serving unbanked, underbanked, and LMI consumers.

Phase 2 (September-October 2015)

Phase 2 included telephone and in-person interviews with executives from eight nonprofit organizations involved in initiatives discussed by Phase 1 bank executives. Selection for participation also took into consideration geographic diversity. The interview process followed the same course as Phase 1 and covered similar topics.

Phases 3 and 4 (November-December 2015)

Phase 3 of the research consisted of eight in-person focus groups with financial counselors from nonprofit organizations and Phase 4 included eight in-person focus groups with unbanked, underbanked, and LMI consumers. Together, the 16 focus groups took place in five locations: Los Angeles, CA; New York, NY; Jackson, MS; Mobile, AL; and Cleveland, OH. Two consumer focus groups (one in New York City and one in Los Angeles) were conducted in Spanish.

The cities selected were geographically diverse and represented areas within the retail footprint of one or more banks included in the study. Participants in the Phase 3 and Phase 4 focus groups were not screened to be having or having had a relationship (e.g., client, customer, or partner) with banks that were interviewed in Phase 1. Therefore, the perspectives consumer counselors or consumers shared were unlikely tied to experiences they had with any bank included in the study.

Nonprofit organizations that provided financial education or counseling to LMI populations in each of the five locations were recruited for the consumer counselor focus groups. Multiple sources were used to identify these organizations, including referrals provided by bank and nonprofit executives that were interviewed for the study, FDIC recommendations, and research. Ultimately, 64 counselors who work directly with LMI consumers on financial issues participated in the focus groups, which included a maximum of two counselors from any individual nonprofit organization.

The consumer focus groups were held in the same five cities and included 79 participants. Individuals were recruited through nonprofit organizations and professional facilities. These individuals were screened on a number of characteristics, including demographic background, employment status, and their financial experiences and behaviors. As shown in Table A, 47 percent were unbanked (did not have a bank account) and 23 percent were underbanked (had a bank account and used nonbank financial services). More than half of the participants had used nonbank short-term credit products in the previous six months, while slightly more than one-third had used a GPR prepaid card at least twice in the previous three months. In addition, 44 percent of participants were African American, 38 percent were Hispanic, and 13 percent were white. Overall, this screening resulted in a diverse pool of consumers participating in focus groups.

Both Phase 3 and Phase 4 focus groups covered multiple topics, including the methods used to make and receive payments; their perceptions of banks and AFS providers; considerations when deciding whether to open or retain bank accounts; challenges or barriers encountered by consumers seeking to become fully banked; and feedback on specific products or strategies identified as effective in reaching and serving unbanked, underbanked, and LMI consumers. Financial counselors and consumers who participated in the focus groups were paid stipends for their time.

Table A. Characteristics of Consumer Focus Group Participants

PARTICIPANT CHARACTERISTICS	PARTICIPANTS (%)
GENDER	
Male	43
RACE/ETHNICITY	
African American	44
White	13
Hispanic	38
More than one/Other	5
BANK STATUS	
Unbanked	47
Underbanked[1]	23
EMPLOYED STATUS	
Employed	71
USERS OF PREPAID CARDS[2]	
Yes	37
USERS OF PAYDAY OR OTHER ALTERNATIVE FINANCIAL SERVICES CREDIT[3]	
Yes	35
USERS OF NONBANK CHECK CASHING SERVICES[4]	
Yes	58
EARNED INCOME TAX CREDIT RECIPIENTS[5]	
Yes	23
PARTICIPANT TOTAL = 79	

Notes:

[1] Underbanked participants were defined as those who had a bank account and had used transactional nonbank financial services at least two times in the past three months.

[2] These participants were defined as those who had used a GPR prepaid card at least twice in the previous three months. Respondents were asked not to consider gift cards or debit cards linked to a checking account.

[3] These participants were defined as those who had used a payday/payday advance, auto title, or pawn shop loan in the previous six months.

[4] These participants were defined as those who had gone to a place other than a bank or credit union to cash a check at least twice in the past three months.

[5] These participants were defined as those who had their federal and/or state taxes done for free at a location hosted by a nonprofit organizations and had received an Earned Income Tax Credit during the past tax season.

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