Minutes

of

The Meeting of the FDIC Advisory Committee on Economic Inclusion

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

March 2, 2011 - 8:58 A.M.

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

The members of ComE-IN present at the meeting were Michael S. Barr, Professor of Law, University of Michigan Law School; Ted Beck, President and Chief Executive Officer ("CEO"), National Endowment for Financial Education ("NEFE"); Kelvin Boston, Executive Producer and Host of PBS's *Moneywise with Kelvin Boston*; Martin Eakes, CEO, Self-Help/Center for Responsible Lending, Durham, North Carolina; Lawrence K. Fish, Former Chairman and CEO, Citizens Financial Group, Inc.; Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen AME Cathedral of New York; Wade Henderson, President and CEO, Leadership Conference on Civil Rights, and Counselor to the Leadership Conference on Civil Rights Education Fund; Manuel Orozco, Senior Associate at the Inter-American Dialogue, and Senior Researcher, Institute for the Study of International Migration, Georgetown University; Rebecca W. Rimel, President and CEO, The Pew Charitable Trusts; John W. Ryan, Executive Vice President, Conference of State Bank Supervisors; Robert K. Steel, Deputy Mayor for Economic Development, The City of New York, New York; and Peter Tufano, Sylvan C. Coleman Professor of Financial Management, Harvard Business School, and Senior Associate Dean for Planning and University Affairs. Diana L. Taylor, Committee Chairman and Managing Director, Wolfensohn & Company, L.L.C., New York, New York; Ester R. Fuchs, Professor, School of International and

Public Affairs, Columbia University; Alden J. McDonald, Jr., President and CEO, Liberty Bank and Trust Company, New Orleans, Louisiana; Bruce D. Murphy, Executive Vice President and President, Community Development Banking, KeyBank National Association; J. Michael Shepherd, President and CEO, Bank of the West and BancWest Corporation; and Deborah C. Wright, Chairman and CEO, Carver Bancorp Inc., New York, New York, were absent from the meeting.

Members of the Corporation's Board of Directors present at the meeting were Martin J. Gruenberg, Vice Chairman, and Thomas J. Curry, Director (Appointive). Michael W. Briggs, Acting Designated Federal Officer for the Committee and Supervisory Counsel, Consumer/Compliance Section, Corporate, Consumer, Insurance, and Legislation Branch, FDIC Legal Division, also was present at the meeting. Corporation staff who attended the meeting included Ruth R. Amberg, Charlotte M. Bahin, Sandra S. Barker, Christine Davis, Keith L. Edens, Michael J. Barry, Valerie J. Best, Leah E. Bullis, Luke H. Brown, Kathleen S. Brueger, Susan Burhouse, Glenn E. Cobb, Keith S. Ernst, Robert E. Feldman, Leneta G. Gregorie, Sally J. Kearney, Kenyon T. Kilber, Ellen W. Lazar, Alan W. Levy, Rae-Ann Miller, Robert W. Mooney, Janet V. Norcom, Yazmin Osaki, Victoria Pawelski, Mark Pearce, Phyllis Pratt, Carolyn D. Rebmann, Luke W. Reynolds, Sherrie Rhine, Barbara A. Ryan, and Jesse O. Villarreal.

Vice Chairman Gruenberg opened and presided at the meeting. He began by welcoming Ms. Rimel to the Committee and announcing the appointment of Mark Pearce as the Director of the Corporation's new Division of Depositor and Consumer Protection ("DCP"). He then provided brief updates on two initiatives of the Committee, the safe transaction and savings account pilot and the small-dollar loan pilot, and announced implementation of a new Chairman's Award for Excellence in Serving the Needs of Low- and Moderate-Income ("LMI") Consumers. Regarding the award, he advised that it was a valuable new effort to recognize individuals or groups involved in creating and promoting affordable credit products, transaction accounts, savings accounts, and other programs that effectively reach out to LMI consumers.

Next, Vice Chairman Gruenberg provided an overview of the meeting agenda, advising that the opening session would focus on the issue of teaching financial education, and that the afternoon session would focus on mortgage lending. With respect to financial education, he reminded the Committee that it has long been a priority for the FDIC and that the FDIC had recently entered into an agreement with the U.S. Department of Education ("DOE") and the National Credit Union Administration ("NCUA") to

promote access to financial education for LMI students and families, with emphasis on strengthening the ability of educators to provide financial education in the classroom. With respect to mortgage lending, he advised that the Mortgage Subcommittee had met the previous day to look at the challenges of addressing the mortgage lending needs of LMI borrowers in the aftermath of the recent housing crisis in the United States, with the results of that meeting to form the basis for the afternoon discussion. He then turned the discussion over to Mr. Beck.

As an introduction to the panel presentations, Mr. Beck, circulating textbooks printed in 1917 and 1919 to illustrate his point, noted that financial education was once prevalent in American schools and that the current push for financial education represents a return to what was done previously. He advised that, currently, there are more than 200 financial programs offered by nonprofit, government, and financial education industry sources, with some, such as the FDIC Money Smart Program and NEFE programs, having a fairly large presence; that the number of available programs has generated a lot of confusion; that, until very recently, there was little collaboration between the various entities offering such programs, with the possible exception of those participating in the National Jump$tart Coalition; and that, although a great deal of research was conducted on financial education, the research was somewhat limited in its depth and funding. He indicated, however, that more recently there has been a much stronger sense of cooperation among stakeholders, citing as an example the FDIC partnership with DOE and NCUA; and that funding is now deeper, with several very important research centers being funded through the Social Security Administration. He nevertheless cautioned that many challenges remain, particularly with respect to the lack of teacher preparedness to provide financial education instruction and, despite some progress, the lack of consensus on core competencies and standards for financial education programs. He then introduced as panelists Annamaria Lusardi, Professor of Accountancy and Economics, The George Washington University School of Business; Laura Levine, Executive Director, Jump$tart Coalition; Tom Leavitt, Executive Vice President, Merchants Bank, Burlington, Vermont; Phil Martin, Assistant for Financial Education and Student Aid, Office of the Secretary, DOE; Moisette I. Green, Director of Consumer Compliance & Outreach, NCUA; and Luke W. Reynolds, Chief, Outreach and Program Development Section, DCP.

Ms. Lusardi began by noting the disparity between the complexity of today's economic environment and the lack of consumer sophistication with respect to the tools and knowledge needed to navigate in that environment. To underscore her point,

she pointed to the results of the National Longitudinal Survey of Youth in 2007-2008, which indicated that less than one-third of young adult respondents were able to correctly answer three simple questions designed to test their knowledge of interest rate calculations, inflation, and risk diversification, and nearly one-half of respondents were unable to correctly answer the questions on inflation and risk diversification, with women and respondents whose parents do not have a college degree exhibiting the lowest levels of financial literacy and a strong correlation between financial literacy later in life and having had parents with stocks and mutual funds when respondents were teenagers; the 2009 National Financial Capability Study, conducted in collaboration with the U.S. Department of the Treasury ("Treasury") and FINRA Investor Education Foundation, which reinforced the earlier findings of low financial literacy among the young; and the Jump$tart Coalition for Personal Financial Literacy survey, which indicated that only seven percent of high school students are deemed to be financially knowledgeable, with a disproportionate number of white male students from college educated families comprising that number.

Ms. Lusardi next called the Committee's attention to the Organisation for Economic Co-operation and Development ("OECD") Programme for International Student Assessment ("PISA"), which every three years assesses how far students near the end of compulsory education have acquired some of the knowledge and skills necessary for full participation in society, advising that in 2012, the OECD will add a module on financial literacy to PISA that will allow comparison of financial knowledge among 18 year-old students in 19 countries, including the United States. Noting that financial literacy questions have already been added to national surveys in eight countries, with the results showing low levels of financial knowledge in countries with developed financial markets and privatized pension systems, she suggested that, in the absence of institutions designed to teach financial education, people are unlikely to attain financial literacy through other means such as self-education, reading the newspaper, or talking to others. Emphasizing the importance of financial education, she stated that many studies show a strong correlation between financial knowledge and the ability to manage debt, participate in financial markets, and accumulate wealth. She further suggested that the most cost-effective means of providing financial education to young people is to offer such programs in schools rather than relying on the unequal knowledge of parents.

Summarizing two financial education initiatives, Ms. Lusardi briefly explained Treasury's National Financial Capability Challenge, which offers an educator toolkit and tests to measure

financial knowledge in participating schools; and the Financial Literacy Center's development of on-line financial literacy modules in areas such as credit cards, paychecks, and car purchases, designed for inclusion in both high school and college courses. She noted, however, that financial education should not be limited to the young and emphasized the importance of financial education in the workplace, where people are increasingly being asked to make a number of financial decisions with respect to their benefits. In this regard, she described an initiative by Dartmouth College, in collaboration with NEFE, to offer a seven-step planning aid for new hires describing how to enroll in the college's supplemental retirement that more than doubled plan participation. In conclusion, Ms. Lusardi stressed the importance of financial education and indicated that her response to those who argue that it is too expensive to offer financial education is that it is too expensive not to offer such education.

Next, Ms. Levine provided background information on the Jump$tart Coalition, noting that it was founded in 1995; that it is comprised of more than 150 national coalition partners, including government entities, financial services corporations, and non-profit organizations; that partners and affiliates share a commitment to financial education and financial literacy, particularly though not exclusively for youth; and that it operates as a clearinghouse of personal financial education resources, curricula, tools, videos, and web sites, all of which undergo a review process to ensure that they are truly educational and not sales or marketing material. Regarding Jump$tart's biannual survey of financial literacy among students, previously mentioned by Ms. Lusardi, she advised that high school students have been surveyed since 1997, that college students were surveyed for the first time in 2008, and that Jump$tart is currently working with the American Institutes for Research to improve the original survey to provide more reliable and accurate information.

With respect to Jump$tart initiatives, Ms. Levine advised that Jump$tart was the first to promote April as financial literacy month; partners with 60 other entities in the Financial Literacy Day event on Capitol Hill; and conducts an annual National Educator Conference in Washington, D.C., with a primary goal of educating and supporting teachers and a secondary goal of providing a platform for Jump$tart's partners to showcase their expertise and materials. She further advised that the coalition has developed and published National Standards in K-12 Personal Finance Education, originally created in 1998, updated in 2001 and 2007, and distributed free on-line; that reviewers of the standards included teachers and other education representatives,

as well as financial services and government representatives; that the standards include benchmarks for 4th, 8th, and 12th grade students; that there are 29 standards in six general areas of competency; and that also included is a definition of financial literacy that references not just knowledge, but also the skill to use that knowledge to manage personal finances. She observed that one of the challenges of financial education is that educational requirements are set at the state, and sometimes the county or school district level rather than at the national level, resulting in significant variance from state to state in what is being taught.

Concluding her presentation, Ms. Levine expressed her excitement about a new Jump$tart initiative, in conjunction with NEFE and a steering committee of eight organizations, to collaborate on a teacher training institute. She stated that the hope is that the initiative will improve and ensure the quality of financial education in the classroom, provide consistency in financial education across the country, and create a standardized teacher training module that will allow teachers to incorporate personal financial education into a variety of different disciplines. She reiterated Ms. Lusardi’s sentiments that the need for financial education is great and suggested that the best chance for doing that successfully is through collaboration and by focusing on the effectiveness of financial education programs.

Mr. Martin then offered DOE’s perspective on financial education, indicating that DOE initiatives are aimed at achieving the President’s goal of having the highest proportion of college graduates in the world by 2020. He explained that, in order to accomplish the goal, the United States would need to do a better job of getting students through, and not just into, post-secondary programs; that a number of financial decisions made by families, including whether they save for college, correctly estimate the cost of college, and apply for financial aid, have an impact on attaining the goal; and that there is also a strong connection between meeting the goal and revising the No Child Left Behind Act to address issues at the elementary and secondary levels of education. Regarding the No Child Left Behind Act, he advised that there is a move toward having accountability be a measure of progress as opposed to a snapshot of achievement, to encourage states to set high standards; that the National Governors Association and the Council of Chief State School Officers have developed common core standards in mathematics and English language arts, which have been adopted in over 40 states and set a high bar for students; and that there exists a tremendous opportunity to think about how to connect financial education with the newly developed common core standards, particularly in mathematics.

Next addressing the area of teacher effectiveness, Mr. Martin suggested that one measure of teacher success is student success; that teacher training programs need to incorporate into their design evaluation mechanisms to provide data on the impact of training on students; that data on training effectiveness should be incorporated into decision-making about which training programs should be offered on a larger scale. In this regard, he stated that DOE has created a What Works Clearinghouse, an on-line site where users can research effective education practices. Noting the lack of sufficient scientific research to create a similar site for financial education, he indicated that one of the reasons he is excited about the partnership with FDIC and NCUA is because initial evidence suggests that having savings accounts makes it significantly more likely that students will enroll in college and that he is looking forward to building on that work.

After providing the Committee with a brief history of Merchants Bank and its approach to community banking and information on the demographics of the State of Vermont, Mr. Leavitt advised that in 1997, Vermont passed Act 60, the Equal Educational Opportunity Act, making it state policy to provide substantially equal educational opportunities to every child, resulting in an increase in K through 12 staffing of approximately 25 percent over the past decade which, when coupled with a 13 to 14 percent decrease in enrollment has offered excess capacity that can be deployed toward the Jump$tart teacher training initiative. He explained that Merchants Bank, because of its statewide presence and commitment to financial education, was uniquely positioned to work with teachers in the various school districts; that Merchants Bank has partnered with the Center for Financial Literacy at Champlain College to launch the Vermont Teachers Financial Literacy Institute; and that the immediate goal was to put a minimum of 105 Vermont secondary school teachers through an intensive five-day training program.

Elaborating on the teacher training program, Mr. Leavitt advised that it will provide three graduate credits toward certification and license renewal; that it will develop participants' knowledge of financial literacy through interactive exercises, group projects, and collaborative training; that it would provide information on free resources for use in the classroom; and that it will provide classroom strategies for creating an engaging learning environment, along with lesson plans for financial education. Ending his presentation, he stated that the Institute hoped to get participation from at least 75 percent of Vermont high schools during the first three years and to build on that going forward; that testing and

outcomes will be important aspects of the program; and that the State of Vermont was hopeful that it could create a model for teacher training that can be effectively used elsewhere.

Next, Mr. Reynolds and Ms. Green jointly briefed the Committee on the purpose and essential elements of and the implementation plans for the partnership agreement between the FDIC, DOE, and NCUA. Mr. Reynolds began by noting that the purpose of the agreement is to promote financial education and savings programs to schools, financial institutions, education grantees, and other stakeholders, with a focus on LMI students and their families; and that key provisions include notifying grantees of the Gaining Early Awareness and Readiness for Undergraduates Program ("GEAR UP") and the TRIO Program of the opportunity to receive technical assistance from, and use the existing financial education resources of, the FDIC and others. He further noted that, in February 2011, the FDIC released an updated version of Money Smart for Young Adults, its financial education curriculum for teachers of students between the ages of 12 and 20, and that DOE was very helpful in reviewing and updating the sections of the curriculum related to financing higher education.

Ms. Green then advised that, with respect to implementation, NCUA is undertaking a number of initiatives, including inviting DOE to participate in a number of conferences NCUA sponsors for its members, inviting education stakeholders to attend for the first time at NCUA's expense to facilitate the sharing of information, planning a networking luncheon, and encouraging member credit unions to reach out to and create partnerships with local organizations in their communities to continue work in the area of financial education. She stated that, in addition, NCUA is making internal changes to its supervision program to make allowances for credit unions that partner with local entities to facilitate the opening of small dollar savings accounts for children to encourage wealth building.

During the discussion that followed, Committee members and panelists covered a number of topics, including how to encourage financial services and other organizations to get more involved in financial education, the tension between economic inclusion for the underserved and financial literacy, and the extent to which the FDIC, NCUA, and DOE and their employees participate in financial education efforts. Mr. Barr commended Mr. Leavitt on the high level of involvement of Merchants Bank in financial education efforts and asked how he would go about encouraging other companies to become involved on a broader scale, in response to which Mr. Leavitt advised that Merchants Bank has communications vehicles in place to keep its business clients

informed about the bank's financial education efforts and to explain why financial education is important to the health of their enterprises, with the hope that it will generate more funding for the program. Regarding the tension between economic inclusion for the underserved and financial literacy, Mr. Fish indicated that while his focus had been on helping underserved communities be better informed and having access to more suitable financial products, the focus of the presentations indicated that financial literacy is a national problem and not limited to underserved communities; Mr. Henderson indicated that he thought the Committee has a responsibility as its primary task to focus on economic inclusion for the poorest of the poor and that financial literacy is a larger issue; Ms. Lusardi agreed that there is a failure at the national level with respect to financial education, but observed that the failure disproportionately affects more vulnerable groups, such as those in LMI communities; Mr. Orozco argued that there is a strong relationship between financial literacy and economic inclusion; and Mr. Boston stated that everyone who lives in America, which is basically a free enterprise system, needs to be financially literate and that the issue, therefore, goes across all economic strata. On the issue of agency participation in financial education efforts, Mr. Martin advised that the expertise of his office is student financial aid and that it does have an ambassador program, pursuant to which there is employee outreach to churches and other community organizations to help students and their families understand the financial aid process; Mr. Reynolds advised that the FDIC has developed a Volunteer Community Service Policy that encourages FDIC staff to volunteer in their communities, that, as a result of the Committee's recommendation, the FDIC is developing an adopt-a-school program, and that FDIC staff teach Money Smart for Young Adults in schools; and Ms. Green advised that the NCUA also participates in an adopt-a-school program, with staff allowed to tutor students during their lunch breaks and on their own time, and encourages individual volunteerism and community service.

Committee members also made a number of suggestions. Mr. Orozco suggested that there is a need to revisit the strategic approach to financial education, with a view toward adopting different approaches for different target populations such as migrants, young adults, and the elderly; and that more emphasis should be placed on workforce education. Mr. Steel suggested that financial education should not be solely a financial services issue and that some effort should be made to include the Business Roundtable in addressing the problem of financial literacy. Mr. Henderson, in agreement with Mr. Steel, suggested that progress on the issue of financial literacy requires greater coordination between Federal and state entities and should

involve the National Governors Association, education stakeholders, and the Business Roundtable. Mr. Barr suggested that, for its next meeting, the Committee consider a discussion of desirable levels of financial literacy within the core competencies developed by Treasury, with emphasis on relating desirable levels of literacy to the actual financial choices people face in their day-to-day lives.

Mr. Henderson, acknowledging that there is an underlying tension in the Committee's work, stated that it is not an action-oriented body and that the issue was, having heard the panel presentations, identifying what the Committee could do to make a difference. Vice Chairman Gruenberg, taking note of Mr. Henderson's observation and other comments touching on the advisory nature of the Committee's role, pointed out that a number of initiatives undertaken by the FDIC, including its partnership with DOE and NCUA, were an outgrowth of Committee recommendations and indicated that the FDIC would continue to look to the Committee for additional recommendations.

Vice Chairman Gruenberg then announced that the meeting would briefly recess. Accordingly, at 10:51 a.m., the meeting stood in recess.

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The meeting reconvened at 11:03 a.m. that same day, at which time Vice Chairman Gruenberg introduced Ellen W. Lazar, Senior Advisor to the Chairman for Consumer Policy, as moderator of the panel discussion on "Issues Update and Status Report on Strategic Plan Projects."

Ms. Lazar reminded the Committee that, as mentioned earlier by Vice Chairman Gruenberg, the FDIC had recently reorganized and in the process created a new division, DCP. She then introduced Mark Pearce, the Division Director, to share with the Committee his vision for DCP and his thoughts about his new assignment.

Mr. Pearce began by informing the Committee that there were two motivating factors for creation of the new division: to make certain that the FDIC has an enhanced and continuing strategic focus on consumer protection issues and to ensure that the FDIC is well positioned to be in alignment with the new regulatory structure arising from the creation of the new Consumer Financial Protection Bureau ("CFPB"). He advised that DCP combines the consumer protection examination, supervisory policy, research, community outreach, and consumer assistance functions into one coordinated unit that focuses on consumer protection; that approximately 95 percent of the staff was transferred from other

parts of the FDIC; that Jonathan N. Miller, who previously served as the Team Leader for the Consumer Protection Team on the Senate Banking, Housing, and Urban Affairs Committee's Housing Subcommittee, has joined DCP as Deputy Director for Policy and Research; and that Keith S. Ernst, previously Director of Research for the Center for Responsible Lending in North Carolina, has joined DCP as Associate Director for Consumer Research and Examination Support.

Elaborating on DCP's strategic focus on consumer protection issues, Mr. Pearce stated that the FDIC has as part of its mission maintaining public confidence in the banking system, critical components of which include ensuring, through examination and enforcement functions, that consumers are treated fairly, with emphasis on practices that create the highest risk of harm; and ensuring that the banking system is broadly inclusive of all segments of society, particularly in the area of access to credit. He expressed excitement at leading the new division and welcomed the Committee's feedback on what DCP can do to promote fairness and inclusion.

In response to a question from Mr. Barr regarding DCP coordination with the CFPB, Mr. Pearce indicated that part of the FDIC's motivation in creating DCP was to better align its consumer protection efforts with those of the new bureau; that the relationship has been very positive, with the new bureau representing an opportunity to forge strong relationships; that a number of FDIC staff are on detail to the CFPB; and that there has been ongoing communication with the CFPB as it develops its programs to help CFPB staff understand the FDIC's practices and generally sharing information that may point the way to various alternatives that may be available to the CFPB.

Ms. Lazar then introduced Michael W. Briggs, Supervisory Counsel, who, she indicated, would fill the Committee in on various soon-to-be implemented provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"); Luke Brown, Associate Director, Compliance Policy Branch, DCP, who, she indicated, would update the Committee on the progress of the Incentives Work Group; Rae-Ann Miller, Special Advisor to the Director, Division of Insurance and Research, who, she indicated, would update the Committee on the progress of the Affordable Credit Work Group; Luke W. Reynolds, Chief, Outreach and Program Development Section, DCP, who, she indicated, would update the Committee on the progress of the Financial Literacy Work Group; and Sherrie L. W. Rhine, Senior Economist, DCP, who, she indicated, would update the Committee on the Safe Transaction and Savings Accounts pilot.

Mr. Briggs, noting that the afternoon session would focus on LMI Mortgage Lending, briefed the Committee on three aspects of Dodd-Frank, scheduled to become effective on April 1, 2011, that would impact the origination of mortgages: escrow requirements, appraisal independence standards, and restrictions on mortgage loan originator compensation. Elaborating on each, he explained that under the new rules, escrow for taxes and insurance would be required for at least five years for certain first-lien mortgages guaranteed or insured by any state or Federal agency; originators of, and other persons who provide services in connection with, extensions of credit would be prohibited from any act designed to cause an appraiser to base a property appraisal on any factors other than his or her independent judgment; appraisers and appraisal management companies would be prohibited from having an interest in the transaction or the appraised property; parties to the transaction would have an affirmative duty to report appraiser misconduct to the state licensing agency; yield spread premiums and other types of compensation based on loan terms, except the dollar amount of the loan, would be prohibited; persons other than the consumer would be prohibited from paying compensation to the loan originator in circumstances where the consumer directly pays the originator; and loan originators would be prohibited from steering a consumer into a loan product for purposes of increasing their compensation.

Mr. Briggs also briefed the Committee on a proposed rule issued by the Board of Governors of the Federal Reserve System to implement other aspects of Dodd-Frank related to mortgage escrow. He explained that, under the proposal, the statutory five-year escrow requirement could be extended if the borrower had not achieved 20 percent equity in the property at the five-year mark, or if the borrower was in default or delinquent on the loan.

Mr. Brown then advised that the Incentives Work Group has, on an interagency level, continued to work on a Community Development Financial Institutions ("CDFI") conference, the objective of which would be to promote partnerships with and investment in CDFIs. He indicated that development of an agenda was underway and that, because larger institutions already have relationships with CDFIs, the target audience for the conference would be mid-sized institutions and community banks. Mr. Brown also briefed the Committee on the status of the Chairman's Award for Excellence in Serving the Needs of LMI Consumers, reminding Committee members that the purpose is to spotlight financial institutions that participate in creating and promoting products and programs that creatively and responsibly meet the credit and deposit needs of LMI consumers and, hopefully, promoting the replication of such efforts. He reported that the solicitation for nominations had been issued the previous month, that the

deadline for nominations was March 31, that a few nominations had already been received, and that staff was very excited about evaluating the submissions.

Ms. Miller, reporting on Affordable Credit Work Group initiatives, advised that the work group was engaged in follow-up efforts with respect to the Small-Dollar Loan Pilot, discussing the pilot results with various groups in the Washington, D.C. area and in California, Massachusetts, Kentucky, and Ohio, with the local Alliance for Economic Inclusion promoting the pilot results on an ongoing basis. She further reported that the work group has been working with a nonprofit organization that has expressed an interest in maintaining a living resource of banks and credit unions that are offering affordable loan products in accordance with the small-dollar loan template, which would serve to broadcast the fact that institutions other than the nine pilot banks offer such products. As an aside, she noted that rules applicable to credit unions had recently changed to allow more flexibility on what they can charge on small loans, resulting in a spike in credit unions offering small-dollar loans.

On the innovative front, Ms. Miller advised that the work group has had a number of discussions on the idea of employer-based lending, that it was exploring the operational logistics of what it would take to implement an employer-based model at the FDIC to test the potential for efficiencies and benefits in costs and delivery times for providing loans through the workplace, and that the concept seems to be developing traction elsewhere in the Federal service, primarily because of an increase in hardship withdrawals and loans from 401(k) accounts to meet short-term emergencies. Concluding her presentation, she advised that the work group was in the process of an internal review of a landscape piece on micro-enterprise development and hoped to share it with the Committee soon.

With respect to the adopt-a-school program proposal mentioned during the first panel discussion, Mr. Reynolds advised that it was currently in the directives process which, pursuant to FDIC policy, provides an opportunity for employee comment on the proposal; that the comment period closed the previous Friday, with the majority of comments very positive in nature; that the proposal also had been shared with and received feedback from the Financial Literacy Work Group; and that the Committee would receive an update on the outcome of the comment process at its next meeting. Ms. Lazar added that the FDIC hopes to have the program in place by September 2011 to coincide with the beginning of the school year.

Ms. Rhine then provided an update on the Safe Transaction and Savings Accounts Pilot, reminding the Committee that the purpose was to determine the feasibility of offering low-cost transaction and savings accounts to meet the needs of underserved populations, and that the transaction accounts are card-based and subject to the consumer protections of the Electronic Funds Transfer Act and Regulation E. She reported that the pilot was launched in January with nine banks; that the pilot banks are currently submitting their account marketing materials to the FDIC; and that the FDIC would collect data similar to that collected for the small-dollar loan pilot on a quarterly basis. In conclusion, she advised that the work group would conduct a mid-year review and share those results with the Committee.

Mr. Fish, referring back to Mr. Henderson's earlier comment regarding the Committee's advisory nature, stated that clearly the Committee's advice has had an impact on FDIC initiatives and thanked staff for their reports on the progress being made on those initiatives. Mr. Barr asked what Dodd-Frank mortgage-related provisions would have the largest impact on FDIC-insured institutions, in response to which Mr. Briggs stated that a number of community banks have indicated that, because escrow has not been a part of their business model, the new escrow requirements will be expensive to implement; that, in his opinion, the appraisal independence standards are beneficial to both consumers and insured financial institutions; that mortgage loan origination compensation was more of a problem in the non-bank sector; and that, on balance, there is an overall net benefit of the Dodd-Frank mortgage provisions. In response to a question from Director Curry as to whether the growth of prepaid cards would have any impact on the card-based transaction accounts being promoted in the Safe Transaction and Savings Accounts Pilot, Ms. Rhine advised that the pilot banks' marketing materials make it very clear that the accounts are FDIC-insured, just like traditional checking accounts, which makes them distinguishable from prepaid cards and that the pilot offers an opportunity, perhaps through financial education, to really highlight the functionality of card-based transaction accounts as it relates to features and fees.

There was additional discussion of the Dodd-Frank exemption of prepaid cards from the change in interchange fees and the authority of the CFPB to regulate prepaid, debit, payroll, and similar cards, as well as unfair and deceptive marketing practices with respect to commercial cards.

Vice Chairman Gruenberg then announced that the meeting would recess for lunch. Accordingly, at 11:44 p.m., the meeting stood in recess.

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The meeting reconvened at 1:33 p.m. that same day, whereupon Vice Chairman Gruenberg introduced Barbara A. Ryan, Deputy to the Vice Chairman, as moderator of the panel presenting a "Report of the Mortgage Subcommittee Discussions Regarding Principles for LMI Mortgage Lending."

Ms. Ryan began by providing background information on the Mortgage Subcommittee, stating that it was created in 2010 at the suggestion of Chairman Bair; that its basic purpose was to focus on the current state of LMI mortgage lending in the post-crisis environment and identify ways for banks to promote safe and responsible mortgage lending to LMI households; and that the subcommittee developed a work plan to assess the current state of LMI mortgage lending and the potential impact of recent legislative and regulatory changes, to review the best practices on LMI mortgage lending issued following a 2008 conference, and to convene a forum to solicit different views on the topic and identify options for updating the best practices for LMI mortgage lending to LMI households. She advised that the aforementioned forum was held the previous day, was very well attended, and included a series of interesting and lively discussions. She further advised that the forum had included presentations on LMI mortgage trends, obstacles, and challenges; discussions on potential strategies to get out of the current trough of LMI mortgage lending; and discussions on broad efforts currently underway to reform housing and related Dodd-Frank rulemakings, particularly those related to qualified residential mortgages ("QRMs"). She then introduced her fellow panelists, Eric Belsky, Managing Director, Joint Center for Housing Studies, Harvard University; Martin Eakes, CEO, Self-Help/Center for Responsible Lending, and Chairman, Mortgage Subcommittee; and Barry Zigas, Director, Housing Policy, Consumer Federation of America.

Mr. Belsky began by sharing his thoughts on why the topic of LMI mortgage lending is important, noting that the largest asset-building opportunity for LMI individuals and families has been and, despite the challenges of housing markets over the past several years, continues to be through homeownership which, in the absence of cash-out refinancing, represents a sort of forced savings program even when housing prices remain level; that homeownership is also likely the only chance LMI households have to earn a leveraged return on an investment because of the availability of mortgage credit, with little money down; and that homeownership is a hedge against rent inflation. He then provided a fairly comprehensive history of LMI mortgage from the 1960s to the present.

Mr. Belsky reported that from the 1960s through 1990, LMI communities were underserved primarily because of racial discrimination, what he termed "statistical discrimination," erosion of property values in LMI neighborhoods, concerns about credit risk because of a lack of credit history and higher unemployment rates, and relatively lower mortgage loan amounts coupled with high fixed costs per loan. He further reported that this created a vicious cycle of a fear of lending, a resulting lack of lending leading to a situation in which only cash buyers were able to purchase, and low demand relative to supply and price stagnation. He advised that efforts to break the cycle began in the 1970s and continued through 1990 with, among other things, enactment of the Home Mortgage Disclosure Act ("HMDA") to require disclosure of information on the demographic makeup and geographic distribution of housing-related loans; enactment of the Community Reinvestment Act ("CRA") in an effort to encourage financial institutions to help meet the needs of borrowers in all communities, including LMI communities; subsequent amendment of HMDA to include data on race and ethnicity; more rigorous enforcement of CRA, with denial of a bank merger application on the basis of poor CRA performance for the first time in 1989; and more active pursuit by the U.S. Justice Department of cases based on discrimination in the mortgage lending process. Moving to the 1990s, he advised that automated underwriting came into existence and, with risk-based pricing, the emergence of a subprime mortgage market.

With the emergence of dual prime and subprime mortgage markets, Mr. Belsky reported that in the 1990s, loans guaranteed by the Federal Housing Administration ("FHA") and subprime loans comprised a disproportionate share of growth for mortgages in lower-income neighborhoods between 1993 and 2001, with FHA-backed loans accounting for 32 percent of loans in low-income neighborhoods versus 4 percent for high-income neighborhoods; that lenders specializing in higher-priced loans, although constituting only 12.8 percent of lenders, dominated the origination of higher-priced loans in 2004, accounting for 46.4 percent of such loans; and that, in 2004 at the height of the housing boom, lending to minority borrowers and communities, with lenders specializing in prime loans representing 43.6 percent of loans originated in high-income areas, but only 23.7 percent of loans originated in low-income areas, and subprime lenders representing almost 25 percent of loans in low-income areas, but only 5 percent of loans in high-income areas. He further reported that, from 2004 to 2006, the vast majority of subprime lending to lower-income borrowers and neighborhoods was outside the requirements and scrutiny of CRA, with 54 percent of such loans originated by independent mortgage companies; that in 2005,

the vast majority of higher-priced loans were made outside of low-income neighborhoods, with the percentage of high-priced loans made in middle-income minority neighborhoods significantly higher than that for loans made to low-income white and low-income mixed neighborhoods; and that, within minority neighborhoods in 2005, high-priced loans represented a significantly higher percentage of total loans in each census tract than for white and mixed neighborhoods.

Moving to the current state of the mortgage market, Mr. Belsky advised that, looking at loans originated by Fannie Mae and Freddie Mac from 2006 to 2009, low-risk loans (loans to borrowers with credit scores above 750 and loan-to-value ratios below 75 percent) increased from 2 percent in 2006 to almost 90 percent in 2009 due to a tightening of underwriting standards; and that the share of FHA-insured loans, which allow 97 percent loan-to-value ratios, taken out by those with credit scores between 680 and 850 increased from approximately 25 percent in 2006 to almost 60 percent in 2010, with lower credit scores representing a constraint in FHA loan programs. He then advised that the current environment has a disproportionate impact on minorities for several reasons: minority renters have minimal and significantly less savings and wealth than non-minorities, with even minorities in the 75th percentile of savers having only about $2,000 in savings, making down payments an issue; that approximately 30 percent of consumers have credit scores below 660, with research indicating that, in 2001, a credit constraint of 660 would eliminate about 20 percent of white borrowers, 42 percent of black borrowers, and 49 percent of Hispanic borrowers; foreclosures through 2008 were markedly higher in minority census tracts, even when controlling for income; and, from 2006 to 2008, dramatically larger shares of the minority mortgage market were being served by the FHA.

Concluding his remarks, Mr. Belsky offered his prescription for what needs to happen to serve the mortgage needs of LMI consumers in the current environment, suggesting that there is a need to return to the underwriting standards of the 1990s, offered in a single-priced market with gradual experimentation to press beyond the limits; that achievement of a single-priced market will require some kind of quid pro quo for an explicit Federal guarantee, similar to that offered by Ginnie Mae, but with higher loan limits and provisions that allow lender innovation with respect to underwriting and products without the need for additional legislative authorization; that there is a need for affirmative obligations covering independent affiliated mortgage companies, insurance companies, investment banks, and whatever other firms emerge to issue mortgage-backed securities moving forward; that for purposes of the new credit retention

standards mandated by Dodd-Frank, the definition of QRMs, particularly with respect to the 5 percent capital requirements, must be designed in a way that is not overly restrictive to credit; and that there must be vigorous enforcement of new laws and regulations emanating from the CFPB, the Financial Stability Oversight Committee, and the Council of Regulators to curtail predatory practices and discriminatory lending.

Then, Mr. Zigas, summarizing the forum discussion on practical solutions to LMI mortgage lending, reported that case studies were presented for three different approaches to providing sustainable and affordable homeownership for LMI consumers. He advised that two of the approaches were high-touch models and one was more of a scalable wholesale model, with the first high-touch model involving a shared equity approach and use of community land trusts and other forms of limited and shared equity programs for those with low wealth and low down payments; the second high-touch model, Individual Development Accounts, involving some of the same components of the first model, with a structured process for helping participants to build equity through a process in which the consumer contributes a portion of the funds and a government entity or philanthropic organization contributes a portion of the funds; and the third wholesale model exemplified by the Community Advantage Program ("CAP") developed through a partnership among Fannie Mae, the Self-Help Venture Fund, and the Ford Foundation, which offers fully underwritten, low down payment loans to LMI consumers, with market interest rates and terms similar to other conventional loans. Regarding CAP, he reported that, after tracking over 46,000 consumers receiving loans through the model over a 10-year period, the results suggest that the biggest driver of success or failure when lending to LMI individuals tends to be the structure of the loans received rather than the characteristics of the borrower, leading to the conclusion that good products that are well underwritten and solidly managed can lead to very positive outcomes. Noting that there has been a median increase in value of $21,000 for CAP borrowers, resulting in a 29 percent return on borrower equity, he stated that the statistics are illustrative of the very unique opportunity that homeownership presents for LMI individuals to benefit from a leveraged investment.

Mr. Zigas next identified the opportunities and risks of the present housing environment, listing as opportunities the fact that housing prices are down and interest rates are at historic lows, with the monthly cost of buying a home in many areas lower than the net cost of renting; the disappearance of predatory lenders from the marketplace; and, if they remain in place, the Dodd-Frank boundaries for mortgage lending that should help steer lending in a much safer direction on a much sounder basis. He

listed as some of the risks the fact that conventional lenders are not participating in the market to the degree hoped for; the credit overlays, even when loans are available, that make it difficult for LMI consumers to get credit; the fact that the infrastructure for CRA lending, whether it be officers on the ground or special processing, is not functioning as effectively as it once did; the new mortgage originator compensation rules that are acting as a barrier to the ability to provide premiums for underwriters to work on small-balance loans that require more work; the damper placed on the markets by the uncertainty as to whether the pending rules for QRMs will require higher down payments to qualify for the seal of approval; the uncertainty surrounding possible reform of Fannie Mae and Freddie Mac; and FHA policies, which appear to be moving to a more conservative place. Bringing his summary of practical solutions to a close, Mr. Zigas shared several points he believed were worth highlighting. Those points were as follows: lenders' reputations have been badly hurt by the economic crisis and they appear to be doing very little to restore them, which may be a barrier to the willingness of LMI consumers accessing conventional credit markets; some aspects of LMI lending may have contributed to the housing bubble and there should be an effort to disaggregate those aspects, such as low down payments, that were not contributing factors; there has been tremendous focus on borrower responsibilities, but there needs to be a corresponding focus on lender responsibilities; and, finally, regulations can be an effective means of discouraging certain practices and encouraging others. Adding to Mr. Zigas' summary, Mr. Eakes noted that, during the forum discussion of solutions, there was a renewed call for lease-purchase loans, in recognition of the fact that the current inventory of vacant structures in the United States is the largest in history, between 10 and 13 million, and the high number of individuals, 8 to 10 million, whose credit has been destroyed as the result of unemployment.

Addressing principles for lending going forward, Mr. Eakes suggested that Dodd-Frank has set a new threshold because of its prohibitions on yield spread premiums, prepayment penalties except in very narrow circumstances, mandatory arbitration, and single premium credit insurance; requirement for documentation of ability to repay a loan; requirement of escrow for taxes and insurance; requirement for licensing and registration of mortgage originators; and establishment of the QRM concept. Turning to Treasury's February 11, 2011 report to Congress on *Reforming America's Housing Finance Market*, he expressed his personal disappointment at the proposal to increase the down payment requirement for mortgages insured by Fannie Mae and Freddie Mac to 10 percent without regard for compensating factors such as mortgage insurance, noting that a 10 percent down payment

requirement would essentially render 90 percent of renters unable to qualify for a mortgage. He also expressed disappointment at inclusion in the report of a statement indicating that FHA is considering, as a means of reducing risk exposure, the option of lowering its maximum loan-to-value ratios for qualifying mortgages, noting that if the down payment requirement for FHA loans is increased from 3.5 percent to 5 percent, or 7 percent for those with lower credit scores, it would eliminate the prospect of homeownership for millions of potential buyers.

In closing, Mr. Eakes reported that a lot of the forum discussion focused on rumors surrounding the possible definition of QRMs, particularly whether it would exempt FHA loans and/or loans sold to Fannie Mae and Freddie Mac, thereby making it applicable only to private-label securities. He stated that, if that proved to be the case, and the definition establishes a 20 percent down payment as a threshold, it would be a setback not just for the middle class and minorities, but also for the recovery of neighborhoods that require the availability of mortgages for renters to become homeowners.

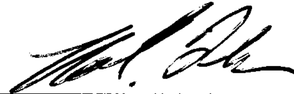
A discussion followed, during which Committee members and panelists further explored the current challenges to LMI mortgage lending and possible solutions. There was general agreement regarding the difficulty of predicting the course of the mortgage market, given the unsettled nature of legislative and regulatory changes. Mr. Barr suggested that in addition to the factors cited by Messrs. Zigas and Eakes, there were two other variables that could have an impact on the mortgage market going forward: the Basel capital rules for mortgage servicing rights and national servicing standards. There also was a general consensus that LMI mortgage lending should not be subject to arithmetic formulas and fixed thresholds, but rather should involve a more nuanced approach to determining creditworthiness and risk. Messrs. Zigas and Barr suggested that, in addition to borrower characteristics, it was important that the mortgage originator retain some risk for a period of time. Mr. Belsky suggested, if feasible, that the FDIC conduct research on mortgage originations at a number of banks over a multi-year period and cross tabulate data on loan-to-value ratio, debt-to-income ratio, borrower credit scores, and other relevant data to determine how well loans performed as a means of identifying critical factors in sustainable LMI mortgages. Ms. Ryan recalled that, in 2008, the FDIC held a forum on Mortgage Lending for LMI Households; that, during the conference, a set of best practices was identified, many of which are now codified in Dodd-Frank; that any new set of principles must go beyond those previously identified; that the focus should now be on the two issues of access to credit and sustainability, with counseling, education, and perhaps down

payment assistance at the front end and post-closing assistance at the back end; and that it also was important to obtain a commitment from financial institutions to support the effort.

Mr. Boston observed that, as the result of the current crisis, many communities throughout the country have been devastated by the high rate of foreclosures, with speculators coming in to snap up properties at significantly reduced prices, and suggested that some program should be developed to provide opportunities for potential homebuyers to acquire the properties.

At the conclusion of the discussion, Ms. Lazar expressed thanks to Committee members, panelists, and staff for a successful meeting.

There being no further business, the meeting was adjourned.



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

Minutes

of

The Meeting of the FDIC Advisory Committee on Economic Inclusion

of the

Federal Deposit Insurance Corporation

Held in the Board Room

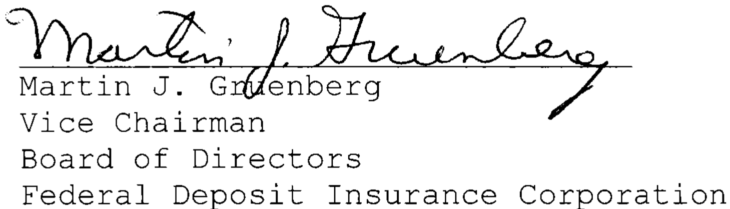
Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

March 2, 2011 - 8:58 A.M.

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



Martin J. Gruenberg
Vice Chairman
Board of Directors
Federal Deposit Insurance Corporation

And

Presiding Officer
March 2, 2011, Meeting of the
FDIC Advisory Committee on Economic Inclusion

Dated: **May 31, 2011**