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 19, 2008 - 8:30 A.M.

The meeting of the FDIC Advisory Committee on Economic Inclusion ("ComE-IN" or "Committee") was called to order by ComE-In Chairman Diana L. Taylor.

The members of ComE-IN present at the meeting were: Diana L. Taylor, ComE-IN Chairman and immediate past New York State Superintendent of Banks; Ted Beck, President and Chief Executive Officer, National Endowment for Financial Education; Kelvin Boston, President, Boston Media, LLC; Ester R. Fuchs, Professor, School of International and Public Affairs, Columbia University; Ronald Grzywinski, Chairman, ShoreBank Corporation of Chicago; Alden J. McDonald, Jr., President and Chief Executive Officer, Liberty Bank and Trust, New Orleans, Louisiana; Manuel Orozco, Senior Associate at the Inter-American Dialogue, and Senior Researcher, Institute for the Study of International Migration, Georgetown University; Maria Otero, President and Chief Executive Officer, ACCION International; John Ryan, Executive Vice President, Conference of State Bank Supervisors; Honorable Robert K. Steel, Undersecretary for Domestic Finance, U.S. Department of Treasury; and Peter Tufano, Sylvan C. Coleman Professor of Financial Management, Harvard Business School, and Senior Associate Dean and Director of Faculty Development. Roberta K. McInerney, Designated Federal Officer for the Committee and Deputy General Counsel of the Federal Deposit Insurance Corporation ("Corporation" or "FDIC"), was also present at the meeting. Committee members Martin Eakes, Chief Executive Officer, Self-Help Credit Union, Durham, North Carolina;

Lawrence K. Fish, Chairman and Chief Executive Officer, Citizens Financial Group, Inc.; Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen AME Cathedral of New York; Wade Henderson, Executive Director, Leadership Conference on Civil Rights; Frederic S. Mishkin, Governor, Board of Governors of the Federal Reserve System; Elizabeth Warren, Leo Gottlieb Professor of Law, Harvard Law School; and Deborah C. Wright, Chairman and Chief Executive Officer, Carver Federal Savings Bank, New York, New York, were absent from the meeting.

Members of the Corporation's Board of Directors present at the meeting were Sheila C. Bair, Chairman; Martin J. Gruenberg, Vice Chairman; and Thomas J. Curry, Director (Appointive). Corporation staff who also attended the meeting included Alice C. Goodman, Barbara A. Ryan, Lisa K. Roy, Jesse O. Villarreal, Janice E. Butler, Claude A. Rollin, Sandra L. Thompson, Sara A. Kelsey, Robert W. Mooney, David M. Barr, Rae-Ann Miller, Lee Bowman, Susan Potkai Boenau, Luke W. Reynolds, Debra L. Novak, Ruth R. Amberg, Angelisa M. Harris, Sally Kearney, and Leneta G. Gregorie.

Ray Boshara, Vice President and Director of Asset Building Program, The New America Foundation; Stephen Brobeck, Executive Director of the Consumer Federation of America and Director of America Saves; Michael Griffin, Senior Vice President, Community Development, KeyBank, Cleveland, Ohio; Cathleen Mahon, Executive Director & Assistant Commissioner, Office of Financial Empowerment, New York City Department of Consumer Affairs, Opportunity NYC; and Joel Schiller, Vice President, Compliance and Community Reinvestment Act Officer, Artisans Bank, Wilmington, Delaware, also attended the meeting.

Committee Chairman Taylor opened and presided at the meeting.

Chairman Bair welcomed ComE-IN members and guest speakers and provided updates on economic inclusion initiatives arising out of previous Committee meetings, and the Corporation's recent launch of an affordable small dollar loan pilot; plans by the Financial Crimes Enforcement Network ("FinCEN") to propose a rule to refine the definition of "money services business"; the efforts of the HOPE NOW alliance and the U.S. Department of Treasury to accelerate the pace of mortgage loan modifications; and a potential conference, organized by the Corporation, on mortgage lending to low- and moderate-income communities. She then noted that, in furtherance of the goal of making credit available to all segments of the population, she would like the Committee to revisit the issue of lending to low- and moderate-income groups.

Rae-Ann Miller, Special Advisor to the Director, FDIC Division of Insurance and Research ("DIR"), acting as moderator of the first panel on policy and market-based approaches to asset building for low- and moderate-income individuals, laid the foundation for the discussion by providing historical information on the saving rate and net worth for U.S. households. She first reported on changes in the personal saving rate over the past 25 years, noting a steady decline in the rate to zero in the fourth quarter 2007. She then provided a similar perspective for changes in net worth over the same time period, which she noted had increased, other than a brief period in the early 2000s, fairly consistently for all income quintiles, except for the second lowest income households whose net worth actually declined over the past 15 years. As she concluded her overview, Ms. Miller identified some of the barriers to saving for lower income households, including the growing wage gap between low- and high-income earners; a public policy framework that encourages asset building through favorable tax treatment of mortgage interest, 401(k) contributions, contributions to Section 529 plans, and other mechanisms that generally exclude lower income tax households; and lack of access to reasonably priced credit alternatives.

Next, Ray Boshara, Vice President and Director of Asset Building Program, The New America Foundation, summarized research findings over the last 10 to 15 years on savings and asset building by low-income individuals. He cited as key the findings that low-income individuals can save and build assets; that the savings needs of low-income individuals are not limited to long-term asset accumulation, but include a variety of needs such as funding of medical emergencies and household repairs; that individual characteristics, including income, are not significant predictors of the ability to save and accumulate assets; and that program characteristics, particularly structure, provide more accurate predictors of saving and asset accumulation for low-income individuals.

Mr. Boshara then articulated a policy agenda to promote savings and asset accumulation among low-income individuals. He suggested that, although individual development accounts ("IDAs") have been hugely successful, the policy agenda going forward should involve changes to existing products and systems; that the policy agenda should operate on two separate tracks, aggressively pursuing low-cost ideas while laying the foundation for bolder initiatives; and that to achieve scale and sustainability, savings and asset accumulation by low-income persons must be profitable for financial institutions. He identified several lower-cost policies he believes can be implemented immediately

and have an enormous impact, such as split income tax refunds; automatic enrollment in 401(k) plans; establishment of young saver's accounts, which would provide a tax-benefited means of saving for a child's higher education, first home, and retirement; enactment by Congress of the New Saver's Act (S. 1967, dated August 2, 2007), a bill to increase savings through targeted incentives and increased access to financial services and wealth building financial products; and enactment by Congress of the Automatic IRA Act (S. 1141, dated April 18, 2007), a bill to allow employees not covered by qualified retirement plans to save for retirement through automatic payroll deposit IRAs.

Concluding his remarks, Mr. Boshara offered four specific recommendations for the Corporation: (1) that the Corporation continue to provide clarity regarding FDIC insurance coverage for prepaid products, pooled accounts, and other products; (2) that the Corporation continue to promote innovations and research on economic inclusion, such as the recently launched small dollar loan pilot; (3) that the Corporation promote savings and asset accumulation, especially through automation; and (4) that the Corporation promote financial literacy and savings accounts for children, especially in schools.

Peter Tufano, Sylvan C. Coleman Professor of Financial Management, Harvard Business School, and Senior Associate Dean and Director of Faculty Development, then addressed the Committee on the use of financial innovations to support savers. To provide a framework for his discussion, he observed that, although poverty is typically characterized by income level, it can also be characterized by level of financial assets. He defined asset poverty as having liquid financial assets that are less than the ability to live for three months at the poverty line and noted that for those who are asset poor, there is very limited ability to withstand short-term financial shocks, such as emergency automobile or household repairs. He stated, nevertheless, that members of the asset poor are heterogeneous, with no one savings vehicle suitable for meeting everyone's needs.

Mr. Tufano next discussed six categories of savings programs, identifying their underlying hypotheses and providing examples for each type of program. He identified the six categories of programs as those that force participants to save, such as the Social Security program; those that make it hard not to save, including default type programs such as automatic enrollment 401(k)programs, and bundled savings products such as the North Carolina Salary Advance Loan Program; those that make it easy to save, such as split income tax refunds; those that "bribe" participants to save by providing economic incentives,

such as IDA programs and Saver's Credit, the tax credit for low- and moderate-income savers; those that rely on social support to encourage savings, such as the America Saves! campaign; and those that make saving fun and exciting, such as the United Kingdom's premium bond program and South Africa's million-a-month account, which distribute interest on funds in the pools in the form of a lottery. Regarding lottery-type programs, he indicated that, although there are legal challenges to implementing such programs in the United States, tests have shown that certain segments of the population would be interested in the products if they were available and research has shown that those who would be interested typically have no savings plan and are asset poor, heavy lottery players, and optimistic about their futures. Mr. Tufano closed his remarks with recommendations that the Corporation encourage auto-save pilot programs; study and encourage broader use of bundling type savings programs; assist banks in lowering the barriers to split income tax refunds and clarify regulatory rules that may be viewed as an obstacle to indirect savings programs; and convene stakeholders to explore strategies for promoting children's, social, and collective savings programs, as well as ways to make prize-based savings programs permissible.

During the ensuing discussion, Committee members and panelists explored explanations for the decline since 1980 in net worth for households in the second lowest income quintile and the reasons the poorest of the poor, those with incomes of 50 percent or less than the poverty level, save a greater percentage of their income than the better off poor. Committee members and panelists also talked more in-depth about the legal impediments to lottery-based savings programs; payment of nominal interest rates or use of a sweepstakes structure as possible ways to avoid those impediments; and prizes such as college tuition for a semester, a year, or four years as an alternative to cash. Mr. Tufano cautioned that, despite his excitement at the prospect of a lottery-based savings program, he was reserving judgment pending research findings as to whether such programs actually increase savings. When asked to prioritize recommendations for focusing national policy efforts on asset building, Mr. Boshara suggested that national attention be focused on a young saver's account, split income tax refunds, auto-enrollment 401(k) accounts, and flexible savings accounts, especially those tied to mortgages and other loans. Regarding advice to consumers to help them prepare for uncertain economic times, Mr. Boshara reiterated his support for flexible savings tied to consumption, paychecks, and mortgages; Ms. Miller suggested promoting greater utilization of direct deposit programs, with an option for diverting a portion of the deposit into a savings account; and Mr. Tufano suggested that consumers check their FICO scores to ascertain

their credit status, assess their current debt load, and develop a plan to reach their financial goals. Mr. Tufano further suggested that regulators and bankers must work to change the public perception of a saver from someone akin to Ebenezer Scrooge to a strong, vibrant individual who is doing what is best for his or her family.

Committee Chairman Taylor announced that the meeting would recess briefly. Accordingly, at 10:37 a.m., the meeting stood in recess.

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The meeting reconvened at 10:58 a.m. that same day, whereupon Luke W. Reynolds, Chief, Outreach and Program Development Section, FDIC Division of Supervision and Consumer Protection ("DSC"), as a prelude to panel presentations on strategies that build assets for consumers and profitable relationships for banks, briefly outlined six strategies successfully used by banks in reaching low- and moderate-income consumers. The strategies he identified were "first, do no harm," a fairly straightforward strategy providing reasonably priced products and services; direct deposit; providing non-account services, such as financial education courses; partnering with organizations for a variety of purposes, including providing financial education or IDA programs; leveraging tax refunds through volunteering at tax assistance sites; and linking credit and other products to savings, such as credit cards with a savings component.

Stephen Brobeck, Executive Director of the Consumer Federation of America and Director of America Saves, began his presentation with a summary of recent survey results regarding the emergency savings needs of low- and moderate-income households, noting that only 40 percent of 50 million households, which includes all of those in the two lowest income quintiles, have a savings or money market deposit account; that less than 40 percent of households report having at least $500 in emergency savings; and that those with incomes under $25,000 and no emergency savings were twice as likely as those with savings up to $500 to have difficulty making mortgage or rent payments, bounce checks, make minimum credit card payments, and use payday loans, and four to eight times more likely than those with at least $500 to experience such negative financial occurrences. Given these findings, he suggested that any potential strategies aimed at asset building for low- and moderate-income households should be viewed within the context of their practical potential to benefit at least millions of these households and their

potential to serve as the basis for financial institutions to build profitable relationships with such customers.

Mr. Brobeck next offered several examples of savings products recently developed and marketed by banks as evidence of their increasing awareness of both consumer savings needs and the potential for automatic savings to grow deposits and sales of asset building products over time. He noted, however, that while many banks express interest in cross-selling auto-save products to existing checking account customers, openness to the idea of an incremental certificate of deposit with automatic deposits, willingness to collaborate with mortgage lenders to develop and market a savings product for first-time mortgage loans, and a desire to assist customers in reaching their asset-building goals, they also express concern that higher-yielding accounts may jeopardize the profitability of savings deposits paying rates under one percent. He suggested, in response to such concerns, that lower spreads would be more than offset by enormous deposit growth, if banks slightly raise savings yields, provide incentives for accumulation of savings, and place reasonable limitations on withdrawals. Mr. Brobeck further suggested that bank regulators could encourage bank marketing of attractive savings accounts by explicitly addressing savings accounts in Community Reinvestment Act ("CRA") regulations and offering credit, perhaps even incentives related to reserve requirements, for opening, maintaining, and growing the savings of lower income households. He noted that simply urging top bank officials and those who manage deposits to prioritize consumer deposit growth through automatic savings would be helpful action on the part of regulators.

Cathleen Mahon, Executive Director & Assistant Commissioner, Office of Financial Empowerment ("OFE"), New York City Department of Consumer Affairs, Opportunity NYC, provided Committee members with background information on OFE, describing its mission and elaborating on its activities in the areas of financial education, financial services and asset-building program development, and consumer protection services. With respect to financial services and asset-building initiatives, she advised that OFE has conducted research on financial service gaps in low-income communities, with one such study showing that 31 percent of residents in the neighborhoods studied were unbanked; that 75 percent of residents, including a significant percentage of banked residents, used check cashers on a regular basis to meet a variety of needs; that low-income residents had a high level of savings and high desire to save, with 30 percent of the unbanked reporting savings in one form or another; and that access to banks was perceived more in terms of the appropriateness of

products and services offered than in terms of proximity of a branch.

Ms. Mahon then provided background information on the Conditional Cash Transfer Program (aka "Opportunity NYC"), a program that encourages families to model various behaviors in the best interests of the family and the public good, from ensuring that children remain in school to attending parent-teacher conferences to engaging in certain health activities, for which they receive cash payments. She advised that OFE's involvement in development of the payment delivery system offered an opportunity to test products to get participants into safe starter accounts. She further advised that, working with eight financial institutions, participants were offered starter savings accounts with no minimum balance, no monthly fees, an incentive payment for opening the account or using an existing one, an inability to be overdrawn, and an ATM card with waiver of at least four ATM fees per month, resulting in a participant population that moved from 53 percent unbanked to only three to four percent unbanked.

Touting the success of the saving product developed for Opportunity NYC, Ms. Mahon indicated that thought was being given to transferring the product to other systems that might offer an opportunity to connect with low-income families; ways to transfer the experience to the development of safe checking accounts and credit cards for low-income residents; and ways to move the innovation from the branch level to the institution level. However, she noted the difficulty of arranging on-site financial institution presence at critical juncture points and stressed the need to be creative with enforcement of Know-Your-Customer rules as they relate to remote gathering of information.

Michael Griffin, Senior Vice President, Community Development, KeyBank, Cleveland, Ohio, shared with the Committee KeyBank's philosophy that providing products and services that meet the needs of its communities in a profitable way results in an outstanding CRA rating, improves the community, and serves bank clients. He then described the bank's approach to identifying community needs, including the use of focus groups; discussed some of the obstacles encountered in serving the low- and moderate-income segment, including overcoming perceptions on the part of clients and bank employees; and explained some of the products and services developed to meet the needs of the low- and moderate-income segment of its client base. Among the products and services he explained were low-cost check cashing services paired with complementary products, such as free money orders; financial education programs to assist those interested in transitioning to more cost-effective ways of transacting their

financial business; a checkless access account, accessible only through an ATM card, that facilitates direct deposit; a small line of credit for those who do not qualify for the standard overdraft line, which offers overdraft protection of $100 to $250; and a loan assist product designed for those who wish to reestablish credit. Mr. Griffin stated that KeyBank's efforts have resulted in growth of its initial pilot from five branches in one market to over 200 branches in six markets; the sign-up of 17,000 clients for checking services, with more than $37 million in checks cashed and approximate losses of only $10,000; financial education provided to 5,000 participants, with total commitments to reduce debt by $797,000; and 639 loans, totaling $1.2 million, made through the loan assist program.

Joel Schiller, Vice President, Compliance and Community Reinvestment Act Officer, Artisans Bank, Wilmington, Delaware, gave a brief account of Artisans' history and structure, pointing out his belief that its lack of common or preferred stock allows the bank to make business decisions that are not driven by open-market considerations and to maintain a level of staff support critical to an asset building program. He also outlined the keys to a successful asset building program, citing senior management commitment, good relationships with non-profit agencies serving the community, and good IT and staff support.

Mr. Schiller then reported on the origin, evolution, and success of Artisans Bank's IDA and credit builder loan programs. Regarding the Delawareans' Save IDA program, he noted that the bank offers parallel savings accounts to participants who need a fund for emergencies, with IDA deposits split between the primary IDA account and the parallel savings account, a strategy which reduced the number of participants who were dropped from the program because of the need to make emergency withdrawals of IDA funds. Regarding the bank's credit building program, he advised that it has expanded from its initial focus of assisting customers in saving for home purchase down payments to a true asset building tool that also assists customers in saving for small business creation, continuing education, or an emergency fund. He concluded with a brief mention of a few of Artisans Bank's other programs for low- and moderate-income individuals, including a free savers account and a six-month low-minimum-to-open certificate of deposit.

In the discussion that followed, Committee members questioned panelists on the profitability of products for low- and moderate-income customers, in response to which Mr. Griffin indicated that KeyBank's check cashing business is profitable and the money orders, although provided for free, do allow the bank to benefit from the float; Mr. Schiller indicated Artisans Bank's

credit builder program yields a marginal profit and its IDAs, with virtually no risk of loss and an average aggregate balance of over $1 million over the life of the programs, provided beneficial use of funds; and both indicated that the products and services increase traffic in their branches and offer opportunities to cross-sell other products and services. Other topics discussed included identification required of check cashing customers, the extent to which savings programs are promoted in the marketing of transaction and other services, and the reasons low- and moderate-income individuals utilize both insured financial institutions and fringe financial service providers. On the latter issue, there was a general consensus that, often, the decision to use a fringe provider is based on economics, convenience, hours of operation, and immediate access to funds.

Committee Chairman Taylor announced that the meeting would recess for lunch. Accordingly, at 12:19 p.m., the meeting stood in recess.

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The meeting was reconvened at 1:35 p.m. that same day at which time Robert W. Mooney, Deputy Director, Consumer Protection and Community Affairs, DSC, moderated a panel composed of Roberta K. McInerney, Deputy General Counsel, Consumer and Legislation, FDIC Legal Division; Rae-Ann Miller; and Luke W. Reynolds.

Mr. Reynolds began with a brief discussion of regulations issued under the CRA and the ways in which the bank regulatory agencies have flexibility to consider a bank's offering of IDAs and other accounts for low-income individuals in CRA evaluations. He also delineated the Corporation's involvement in various community affairs activities, including America Saves and the Volunteer Income Tax Assistance Program, and the Alliances for Economic Inclusion.

Ms. Miller advised of a series of articles being published by FDIC on issues related to the unbanked, the underbanked, and alternative financial services; and of the Corporation's recently initiated survey of bank efforts to serve the unbanked and underbanked, follow-up case studies of innovative products and services for that segment of the population, and a soon to be initiated survey to estimate the size and characteristics of the unbanked and underbanked population in the United States.

Ms. McInerney, to facilitate the afternoon's discussion by Committee members and staff, summarized the issues raised by

earlier panel discussions. She identified those issues as development of children's savings accounts, the need to provide emergency as well as long-term savings accounts for low-income individuals, the possibility of a savings lottery, opportunities to offer matching savings accounts, financial education, and exploration of ways to make automatic savings programs more widely available, ways to facilitate customer identification as it relates to savings products, and ways to facilitate savings programs under current CRA rules.

Mr. Mooney, in an effort to explain why it is so often said that CRA does not go far enough to promote or provide incentives for asset building programs, provided an overview of the components of the ratings tests implemented in 1995 for small banks and large banks and the components of the ratings test implemented in 2005 for intermediate small banks. He further provided an overview of the weighting of components for large and intermediate small banks, the flexibility of the community development component in the test for intermediate small banks, and the potential for incorporating similar flexibility into the test for large banks.

The discussion that followed focused on recommendations for removing regulatory obstacles to, and increasing regulatory incentives for, asset building programs and other suggestions regarding how the Corporation can promote asset building activities. The majority of discussion regarding regulatory obstacles and incentives centered on CRA, with Committee members generally in agreement that CRA, with its heavy focus on lending, was enacted to address a specific set of problems existing at the time of its enactment, with positive results, but that new problems have emerged that could be addressed with CRA-type programs if more flexibility was written into the regulations. Included among suggestions for CRA-related solutions were providing credit for banks with large numbers of small balance accounts; providing credit for quality financial education programs, especially those linked to savings products; changing the focus of the lending test from its current emphasis on number and dollar amount of loans to long-term impact of such loans on the community; and creating more of a distinction between "satisfactory" and "outstanding" ratings to encourage more innovation on the part of banks in addressing community needs. With respect to the latter suggestion, Chairman Bair acknowledged, given that 97 percent of banks have a "satisfactory" rating at any point in time, that there was very little incentive for banks to work towards achieving an "outstanding" rating and that it might be appropriate for the Corporation and other bank regulators to review the definition of "satisfactory."

In response to Chairman Bair's request for Committee members' views of the top three activities the Corporation should consider as the basis for regulatory incentives, most often cited were savings products, especially children's and young savers accounts, flexible accounts, and emergency savings accounts; financial literacy education; and bank partnerships with government, community groups, philanthropists, and alternative financial service providers that promote asset building programs. However, a number of other ideas were suggested for consideration by the Corporation, including reviewing any available research literature on the effectiveness of CRA programs and community perceptions of such programs; exploring options for making better use of CRA strategic plans; and clarifying customer identification procedures to facilitate identification of customers by remote bank partners.

Chairman Bair asked Mr. Mooney and Ms. Miller to summarize the thoughts and recommendations expressed by Committee members and to circulate them for additional comment.

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

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

Diana L. Taylor
Chairman
FDIC Advisory Committee on Economic Inclusion

Dated: 6/09/2008