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

July 30, 2009 - 8:53 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 Managing Director, Wolfensohn & Company, L.L.C., New York, New York; , Martin Eakes, Chief Executive Officer, Self-Help Credit Union, Durham, North Carolina; Lawrence K. Fish, Former Chairman and Chief Executive Officer, Citizens Financial Group, Inc.; Ester R. Fuchs, Professor, School of International and Public Affairs, Columbia University; Ronald Grzywinski, Chairman, Shore Bank Chicago, Illinois; Wade Henderson, President and CEO, Leadership Conference on Civil Rights; Alden J. McDonald, Jr., President and Chief Executive Officer, Liberty Bank and Trust, New Orleans, Louisiana; Bruce D. Murphy, Executive Vice President and President, Community Development Banking, KeyBank National Association; Manuel Orozco, Senior Associate at the Inter-American Dialogue, and Senior Researcher, Institute for the Study of International Migration, Georgetown University; John W. Ryan, Executive Vice President, Conference of State Bank Supervisors; J. Michael Shepherd, President and Chief Executive Officer, Bank of the West and BancWest Corporation; Peter Tufano, Sylvan C. Coleman Professor of Financial Management and Senior Associate Dean, Harvard Business School; and Elizabeth Warren, Leo Gottlieb Professor of Law, Harvard Law School. Committee members Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen AME Cathedral of New York, and Robert K. Steel, Chairman of the Board of Trustees, The Aspen Institute, participated in the meeting by telephone.

Committee members Michael S. Barr, Assistant Secretary for Financial Institutions, Department of the Treasury; Ted Beck, President and Chief Executive Officer, National Endowment for Financial Education; Kelvin Boston, President, Boston Media, L.L.C.; 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 Federal Deposit Insurance Corporation's ("Corporation" or "FDIC") Board of Directors present at the meeting were Sheila C. Bair, Chairman, and Martin J. Gruenberg, Vice Chairman. Corporation staff who attended the meeting included Ruth R. Amberg, Valerie J. Best, Michael W. Briggs, Elizabeth Boudris, Lee Bowman, Luke H. Brown, Susan Burhouse, Karyen Chu, Christine M. Davis, Tiffany K. Froman, Heather Gratton, Leneta G. Gregorie, William F. Harral, Ellen W. Lazar, Alan W. Levy, Rae-Ann Miller, Skip Miller, Tariq A. Mirza, Robert W. Mooney, Janet V. Norcom, Luke W. Reynolds, Claude A. Rollin, Barbara A. Ryan, Andrew B. Stirling, Jesse O. Villareal, Christina Whatley, Cathy Wright, and Nann E. Wright.

William A. Rowe, III, Deputy Chief of Staff, Office of the Comptroller of the Currency; Gary E. Barnoff, Vice President of Branch Operations, Slavie Federal Savings Bank, Baltimore, Maryland; Mark J. Cavanagh, Executive Director, Massachusetts State Lottery; Margaret R. DeFrancisco, President & CEO, Georgia Lottery Corporation; Gordon Medenica, Director, New York State Lottery; Kevin Miller, Senior Vice President, Deposit Product Manager - Keep the Change and Traditional Savings, Bank of America, National Association, Charlotte, North Carolina; Stephanie B. Mudick, Executive Vice President, Head of Global Retail Strategy, JPMorgan Chase & Co., New York, New York; Connie Laverty O'Connor, Senior Vice President, Chief Marketing Officer, GTECH Corporation; and Joel Rosen, Consultant, Doorways To Dreams Fund, Boston, Massachusetts, were also present at the meeting.

Committee Chairman Taylor opened and presided at the meeting. After Committee Chairman Taylor welcomed ComE-IN members and provided an overview of the meeting agenda, Chairman Bair provided an update on the status of initiatives arising from previous meetings of the Committee, including progress on the Corporation's affordable small dollar loan pilot, which she said was performing well with 31 participating banks originating over 19,000 new loans; progress on the Corporation's survey of banks serving the unbanked and the underbanked, which will be a focus of the next ComE-IN meeting and has been championed by Vice Chairman Gruenberg; and progress on the Prize-Linked Savings ("PLS") subcommittee, which held a meeting on July 29, 2009.

Chairman Bair went on to introduce Ellen W. Lazar, the FDIC's new Senior Advisor to the Chairman for Consumer Policy, and indicate that Ms. Lazar would lead the later discussion on recommendations from the February 5, 2009, ComE-IN meeting and focus on setting specific goals for reducing the level of underserved households and exploring how lessons learned from the small dollar pilot program and other potential innovations can be leveraged into broader availability of small dollar credit.

After a brief introduction by Chairman Bair and Committee Chairman Taylor, Committee Member Tufano, chairman of the PLS subcommittee, began his summary of the July 29, 2009, subcommittee meeting. The meeting, explained Professor Tufano, covered many topics and featured a set of eclectic group of speakers who he listed: Mr. Medenica, Mr. Cavanagh, Ms. DeFrancisco, Ms. O'Connor; and James C. Kennedy, Jr., Senior Vice President, Sales and Global Marketing, Scientific Games; from the non-profit community: Mr. Rosen; from the technology community: Michael Ferrari, President, Chief Operating Officer, and co-founder, SmartyPig, and from the banking industry: Mr. Barnoff, Mr. Miller, Ms. Mudick, Robert Keip, Chief Executive Officer, Investment Products, First National Bank - A Division of FirstRand Bank, Limited, South Africa; and William L. Koleszar, Senior Vice President, Marketing, Citizen's Financial Group/Royal Bank of Scotland. Professor Tufano said that the speakers were joined at the July 29, 2009, meeting by Chairman Bair and Vice Chairman Gruenberg, and PLS Subcommittee members Grzywinski, Orozco, and Ryan as well as Committee Member Murphy.

The main topics of the PLS subcommittee meeting, as summarized by Professor Tufano, were identifying the reasons why savings initiatives, including PLS, are important, identifying the purpose behind normal family savings, identifying technological advances that can enhance and change family savings, developing a method by which savings products can be delivered to struggling families, deciding who should lead these savings initiatives, and explaining how lotteries and PLS could further this goal. In order to help explain why savings initiatives targeted at the unbanked and underbanked are important, Professor Tufano described a large scale survey that he conducted in conjunction with TNS Global and Annamaria Lusardi, Professor of Economics, Dartmouth University. The survey, Professor Tufano stated, asked participants whether they could come up with $2,000 in emergency funds within 30 days and, if emergency funds were needed, where the money would come from. The results of this survey indicated that 46 percent of Americans believed that they probably could not come up with $2,000, and only 23 percent were absolutely certain that they could, numbers that Professor Tufano described as both startling and deeply depressing.

Professor Tufano went on to explain that, while savings is a financial decision for families, it also embodies their hopes, dreams, and aspirations. With this in mind, Professor Tufano introduced a continuum of methods that could be used to increase savings and working examples of each method. First, he gave examples of how to *force consumers to save*: Social Security and the United Kingdom's Child Trust Fund. Second, he gave examples of how to *make it hard for consumers not to save*: Auto-IRA plans and bundled products such as Bank of America's Keep the Change program. Third, Professor Tufano gave examples of how to *make it easy for consumers to save*: fee-loaded stored value cards with savings pockets that allow holders to transfer funds from the non-interest bearing part of the card to the interest-bearing part of the card and tax-time savings programs. Fourth, Professor Tufano gave an example of *bribing consumers to save*: Citizens Bank's CollegeSaver and embedded financial incentives in 401(k)s or Individual Retirement Accounts. Fifth, he gave an example of *providing social support for consumers to save*: SmartyPig, an "online piggybank" to help people save money for specific goals in their lives. Finally, Professor Tufano introduced the concept of PLS, as a method of encouraging consumers to save by *making savings fun*.

Professor Tufano described a PLS product as a way of mixing a traditional savings tool with a lottery, creating a product that would protect principal while providing something more exciting than ordinary interest. He stated that many families prefer a small chance of a life-changing event, winning the lottery, over a large chance at a non-event, nominal interest from a small bank deposit. To support this notion, Professor Tufano explained that 70-80 percent of all Americans play the lottery, and the average family spends $514 a year on lottery tickets. Moreover, according to a study by the Consumer Federation of America, 38 percent of people with incomes under $25,000 believe that the most practical way to accumulate several hundred thousand dollars is through the lottery, making lottery a savings strategy in the minds of those individuals.

Professor Tufano described several working examples of PLS products in other countries: Premium Bonds in the United Kingdom, no-interest accounts that provide the holder with a monthly chance of winning between 50 and 1 million pounds; Swedish Lottery Bonds; and, in South Africa, First National Bank's now defunct Million a Month Account, an account that yielded nominal interest and had no fees to enroll, but provided one entry per 100 rand deposited for the monthly prize drawings for up to 1 million rand. Each of these products had positive results, especially the Million a Month

Accounts that were purchased by 1.1 percent of South Africa's unbanked and 7.1 percent of the population as a whole.

Prompted by a question from Committee Member Eakes, Professor Tufano addressed the legality of PLS products in the U.S. He explained that under most state laws, private lotteries are illegal, and federal law prohibits banks from running lotteries. However, he explained further, banks can create sweepstakes as long as entry is not based on consideration. Professor Tufano provided three examples of sweepstakes PLS programs: Maryland's Roll in the Dough where everyone making a deposit or who filled out a form was entered in a sweepstakes to win a fixed prize; JPMorgan Chase's Double Your Deposit where entry occurred prior to deposit and those chosen in the sweepstakes had their new deposits doubled; and Michigan's Save to Win, which was very similar to the Million a Month Account from South Africa but operated under a special Michigan law allowing "savings raffles" in credit unions. Professor Tufano described all three programs as successful.

Finally, Professor Tufano introduced the concept of No-Lose Lottery Tickets, an idea discussed in the July 29, 2009, PLS subcommittee meeting. This concept would allow already existing state lotteries to sell tickets that allow holders to remain enrolled in a periodic lottery drawing or that could be redeemed for face value at any time. Professor Tufano also highlighted the challenges of creating such a product including: providing proper regulatory oversight, structuring the program in a way that it would be profitable, and marketing the program such that it would not reduce earnings from normal lottery sales.

Professor Tufano ended his presentation with a reminder of the need to foster family savings and encouragement for the Committee in pursuing this goal. Then, Professor Tufano asked the members of the PLS subcommittee to give their comments about the July 29, 2009, meeting.

As the PLS subcommittee and other Committee members gave their comments and opinions on the July 29, 2009, meeting, most expressed their thanks to Professor Tufano for his concise summary of the topics covered. Also, most of the members stressed the importance of promoting savings to the unbanked and asset poor segments of the population as well as the role that ComE-IN should play in such an endeavor. Committee Members Ryan and Grzywinski stressed the national importance of savings, with Mr. Grzywinski framing it as a possible national security issue. Committee Member Murphy praised the suggested programs that would allow consumers to place money directly into a savings product when cashing checks.

Committee Chairman Taylor posed a question regarding the national savings equilibrium. Professor Tufano responded by pointing out the difference between the macro and micro approaches. Professor Tufano explained that the macro approach balances the national growth effects of the savings rate while a micro approach looks at the minimum level of savings needed by a family.

Committee Member Orozco discussed the need to match the type of product encouraged to the type of savings that is to be needed, concluding that the Committee should focus on small loans and small savings accounts, including PLS products. Committee Member Fish pointed out the difficulty in marketing small accounts. He explained that most banks believe that fully loaded savings accounts with balances under $2,000 are not profitable. He also asked if the Community Reinvestment Act ("CRA") could be adjusted to help incentivize small savings accounts. He was joined in his interest in adjusting the CRA by Committee Member Henderson.

With respect to the CRA discussion, Mr. Grzywinski commented that direct incentives might not be the best long-term option. Rather, Mr. Grzywinski suggested, it would be more helpful to create an ongoing obligation on the part of banks to increase personal savings or to incentivize the research and adaptation of new technologies that could lower the cost of administering accounts. In response, Chairman Bair asked for comments on new technologies and administration costs associated with the programs that had been discussed at the PLS subcommittee meeting. Professor Tufano responded that new technologies had aided in the creation of the previously mentioned savings programs, particularly Keep the Change and SmartyPig.

In addition to general comments on encouraging savings, the Committee members' discussion focused on lotteries and related savings products, the principal focus of this ComE-IN meeting. Mr. Fish asked whether the stereotype that lotteries take advantage of low- and moderate-income families and represent a regressive tax is accurate. Professor Tufano called on Gordon Medenica, Director of the New York State Lottery, to help answer this question. Mr. Medenica responded that lotteries are mainstream activities that are enjoyed by all segments of the population. Additionally, Mr. Medenica pointed out that most state lottery earnings are earmarked for specific public programs, such as K-12 education in New York. A subsequent discussion among Mr. Medenica, Mr. Ryan, and Chairman Bair pointed out that lotteries are only regressive with respect to percentage of income, not gross spending. Another subsequent discussion between Mr. Medenica, Committee Member Fuchs, and Chairman Bair pointed out that money from lotteries earmarked for social programs is not normally a percentage of lottery earnings but rather a fixed amount. Professor Fuchs explained that this kind of earnings allocation made the lottery earmarks more like a general state expenditure and the lottery earnings more like any other part of the state budget, diminishing the social value of the programs.

In response to a question by Professor Fuchs, Professor Tufano explained that lottery related savings products, and PLS products generally, are most often used by asset poor individuals and families. He also explained that the target demographic of any PLS product could be adjusted by reducing prize potential and adding a normal interest rate to the product. Additionally, Mr. Murphy pointed out how similar running a lottery can be to banking in terms of delivering products, asset management, and legislative difficulties.

Committee Member Warren expressed her concerns that PLS products would make comparison of savings products more difficult and thereby reduce the effect of competition. She explained that, when shopping for an account with the best interest rate, it is relatively simple to compare the products of different banks, but, when trying to compare a normal interest rate to a product offering a lottery or sweepstakes compensation, product comparison would become extremely complicated. Professor Tufano responded by suggesting a mandatory rate reporting requirement, similar to the Prize Rate system in the United Kingdom.

Chairman Bair then called for a recess. Accordingly, at 10:52 a.m., the meeting stood in recess.

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The meeting reconvened at 11:08 a.m. that same day, whereupon Chairman Bair introduced Ellen W. Lazar to moderate a discussion on the next item of the Committee's business. Ms. Lazar opened with a discussion on the adoption of a June 5, 2009, report, summarizing the business of ComE-IN's February 5, 2009, meeting. She gave the Committee some time to review the five-page report and then asked for comments on whether it fairly represented the Committee's prior discussion and business.

Professor Warren suggested that the report should indicate the Committee's adoption, rather than just consideration, of a measure for the creation of an entity to protect consumers from harmful financial products. Mr. Henderson concurred with Professor Warren, and Mr. Ryan suggested adding language to make clear that any such Federal entity would serve as a regulatory floor to the states. Professor Fuchs suggested that the same adoption language should be added to the section on instituting a universal curriculum of financial education in schools. She also suggested that language concerning the use of new technologies should be added to the section suggesting that banks offer products that make savings automatic. Mr. Fish suggested that the section recommending incentives to banks should include recommendations of both tax and non-tax incentives, and, finally, Professor Tufano suggested adding a few sentences to the report congratulating the FDIC on getting fact-based information on these topics to the public.

Mr. Grzywinski asked for a method by which members of the public could comment on the final report once posted to the Committee's website. Committee Member McDonald recommended that, if comments were received, the Committee revisit the report and comments at a future meeting for further revision.

Ms. Lazar noted the necessary language corrections and website recommendations and agreed to oversee the changes. Ms. Lazar went on to summarize her view of the Committee's goal and necessary course of action. She explained that the Committee's main concern is lowering the level of underserved households, elaborating that the main areas of concern should be setting a target level of underserved, developing a method for measuring underserved households, ensuring reasonably priced and safe bank accounts, ensuring access to fairly priced small dollar credit, and revising the CRA services test. Ms. Lazar then began a new discussion, asking what should be done about the Committee's goals, how it could work together with the FDIC, and how it could more effectively use subcommittees.

Committee Member Orozco commented on the ambition embodied in this list of goals. He explained that many of these concerns were outside the scope of the Committee's ability and authority. He also commented that tackling so many problems might not be possible and suggested focusing on one or two of the most important issues.

Mr. McDonald asked about the general authority of the Committee and how far it could go in making recommendations and setting policy. Chairman Bair explained that the Committee's role is to advise the FDIC on matters concerning economic inclusion in the banking industry. She pointed out that the FDIC could rely on the Committee's finding when setting its own policy and regulations, and when recommendations are outside the scope of the FDIC's authority, the agency could foster the communication necessary to carry the Committee's recommendations to the appropriate government agency.

Committee Member Eakes expressed a concern that the Committee should focus on overdraft protection issues before encouraging savings among underbanked consumers. Mr. Eakes and Vice Chairman Gruenberg discussed some of the worrisome statistics regarding overdraft protection including: most overdrafts occur among people with five or more overdrafts per year, 50 percent of overdrafts occur during point of sale and ATM transactions, in 2004, 80 percent of banks didn't allow overdrafts at all, and today, 80 percent of institutions allow overdrafts and charge fees associated with them. Mr. Eakes stated that encouraging consumers to increase use of banks without first addressing overdraft protection would compromise the Committee's overall goal and serve to hurt low- to moderate-income families. He also reasoned that such overdrafts constitute loans without bank oversight, possibly affecting bank safety and soundness.

Ms. Lazar pointed out that the Board of Governors of the Federal Reserve System ("FRB") was in the process of creating overdraft protection rules. She said that these rules should be enacted by the end of the year. Mr. Eakes expressed his displeasure with the FRB's proposed rule, saying that it was too limited. He also expressed his frustration with finding an agency with both the authority to act and the willingness to listen.

Chairman Bair indicated that the FDIC would have liked to see more assertive rules on overdraft protection in the FRB's proposal, and she pointed out that the FDIC had commented on the proposed rules. Chairman Bair stated that the FDIC had been and would continue to be a strong advocate against abusive overdraft protection. She went on to point out that regulating overdraft protection was not a traditional role of the FDIC, but she reasoned that it could possibly be tied to the FDIC's safety and soundness guidelines.

Vice Chairman Gruenberg suggested that, even without a solution to overdraft protection issues, the Committee should still move forward with its goals and include overdraft fee reform as a part of its overall recommendation on ways to help unbanked and underbanked individuals. Chairman Bair agreed with the need to move forward with the Committee's goals and indicated that overdraft protection would be an issue with which the Committee would continue to grapple.

As its final item of business, Chairman Bair created a subcommittee to come up with specific recommendations for reducing the level of underserved individuals. Ms. Lazar suggested the creation of the subcommittee and suggested that new technology be part of its focus. Committee Member Shepherd agreed with Ms. Lazar's suggestion. Chairman Bair asked Vice Chairman Gruenberg to head the subcommittee, and Mr. Fish suggested that it have a number of bankers among its members. Chairman Bair outlined the purpose of the subcommittee as creating goals for bringing people into banking in an appropriate way and determining how to measure achievement of that goal. Ms. Lazar indicated that she would set up an agenda and contact individual members to participate on the new subcommittee.

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: October 29, 2009