

FDIC COMMITTEE ON ECONOMIC INCLUSION

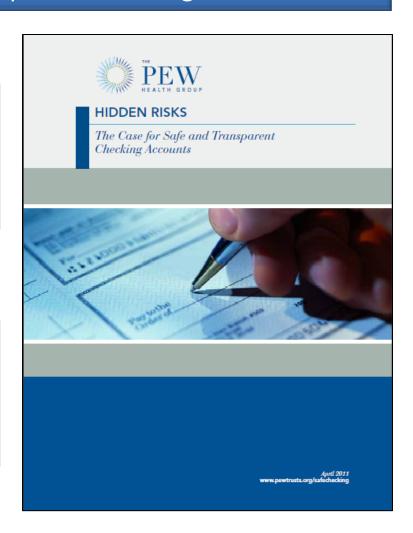
Evolving Trends in Financial Services: Opportunities and Challenges for the Underserved



Hidden Risks: The Case for Safe and Transparent Checking Accounts

The Pew Health Group's Safe Checking in the Electronic Age Project aims to restore transparency, fairness, responsibility, and free market principles to one of the most common consumer financial products – the checking account.

In October 2010, Pew analyzed more than 250 checking accounts offered online by the 10 largest banks in the United States, which held nearly 60 percent of deposit volume nationwide.





Poor Disclosure of Key Terms & Conditions

THE MEDIAN
NUMBER OF PAGES
OF DISCLOSURE FOR A
CHECKING ACCOUNT

Waiver of Immunity:

To the extent that you have or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, or otherwise) with respect to itself or its property, you hereby irrevocably waive such immu-

ect of your obligations hereunder to the nitted by applicable law. Without limiting ity of the foregoing, you agree that such ll have the fullest extent permitted under Sovereign Immunities Act of 1976 of the

United States and are intended to be irrevocable for purpose of such act.

CHECKING ACCOUNT DISCLOSURES ARE GENERALLY TWICE AS LONG AS

ROMEO AND JULIET

THE NUMBER OF DIFFERENT NAMES

USED BY THE TEN LARGEST BANKS TO DESCRIBE THEIR OVERDRAFT PENALTY FEE—

"OVERDRAFT ITEM FEE," "INSUFFICIENT FUNDS FEE," "OVERDRAFT FEE," "OVERDRAFT ITEM PAID FEE," "RETURNED/ PAID ITEM FEE," "UNAVAILABLE FUNDS PENALTY," "UNAVAILABLE FUNDS FEE"

—WHICH MAKES IT DIFFICULT FOR CONSUMERS TO MAKE COMPARISONS.

Arbitration:

PLEASE READ THIS PROVISION CAREFULLY. IT PROVIDES, WITH THE SPECIFIC EXCEPTION STATED BELOW, THAT ANY DISPUTE MUST BE RESOLVED BY BINDING ARBITRATION. ARBITRATION REPLACES THE



Pew's Model Disclosure Box for Checking Accounts

		BASIC TERMS AND C	ONE	DITIONS
	Minimum Deposit Needed to Open Account		\$	
		Monthly Fee		· ·
Account Opening	Requirements to Waive Monthly Fee			Minimum combined account balance, direct deposit or other conditions
	Interest Rate		%	
	ATM Fees			for using your bank's ATM
	ATM Fees			for using another bank's ATM
and Usage	Non-Sufficient Funds (NSF) Fee		\$	per item
	Returned Check Fee		\$	per declined check written to your account
	Stop Payment Fee		\$	per item to stop payment for up to X months
	Account Closing Fee		\$	if account closed within Y days of opening
	Other Service Fees			Please consult the back of this document for a list of additional service fees.
Overdraft Options for Consumers with Debit Cards	Option A: (Default)	No Overdraft Service	,	If you choose not to opt in to any kind of overdraft service transactions that would cause an overdraft will be declined at no cost to you.
	Option B:	Overdraft Transfer Fee	\$	per overdraft covered by transfer from linked savings account, line of credit, or credit card
	Option C: Overdraft Penalty	Overdraft Penalty Fee	\$	per overdraft covered by bank advance
		Maximum Number of Overdraft Penalty Fees per Day		
		Extended Overdraft Penalty Fee	\$	every Mth day the account is overdrawn, starting N days after the account is first overdrawn



Disproportionate Overdraft Fees



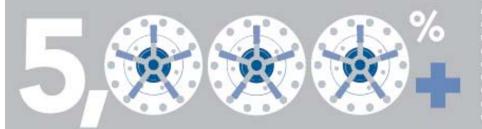
Per Day ### \$140

THE MEDIAN AMOUNT

A CUSTOMER CAN BE CHARGED PER DAY IN OVERDRAFT FEES

THE AMOUNT AMERICANS ARE ESTIMATED TO SPEND

ON OVERDRAFT FEES IN 2011, WHICH WOULD BE AN ALL TIME HIGH, ACCORDING TO MOEBS SERVICES



THE MEDIAN TRANSACTION

AMOUNT
THAT CAUSES
A CONSUMER TO
OVERDRAFT, ACCORDING
TO THE FDIC

THE MEDIAN OVERDRAFT TRANSFER CHARGE

THE MEDIAN OVERDRAFT PENALTY FEE

IF AN OVERDRAFT WAS TREATED LIKE A SHORT-TERM LOAN

WITH A REPAYMENT PERIOD OF SEVEN DAYS, THEN THE ANNUAL PERCENTAGE RATE FOR A TYPICAL INCIDENCE WOULD BE OVER 5,000 PERCENT



Banks Reorder Transactions, Which Increases Overdraft Fees

High-to-Low Posting: How the bank ordered transactions

10/5	DATE	TRANSACTION DESCRIPTION	\$+/-	BALANCE
Durchase \$17.23 \$334.13	10/5	Starting Balance		\$316.90
\$334.13 10/10 - 1 Online transfer of funds to another account 10/6 - 3 ATM withdrawal at a Non-Wells Fargo ATM -\$22.00 10/6 - 4 Non-Wells Fargo ATM fee -\$2.00 \$230.13 10/7 - 1 Debit card purchase at Albertsons Supermarket -\$74.39 10/10 - 2 Check #1103 -\$65.00 \$10/6 - 2 Debit card purchase at IHOP Restaurant -\$26.51 10/5 - 3 Debit card purchase at Autozone -\$17.23 Overdraft Penalty Fee -\$22.00 10/5 - 1 Debit card purchase at Subway Restaurant -\$11.27 Overdraft Penalty Fee -\$22.00 10/6 - 2 Debit card purchase at Farmer Boys Restaurant -\$8.10 Overdraft Penalty Fee -\$22.00 -\$65.26 Overdraft Penalty Fee -\$22.00 -\$65.26 Overdraft Penalty Fee -\$22.00 -\$66.36 Overdraft Penalty Fee -\$22.00 -\$86.36	10/5 – 5		\$17.22	
another account		purchase	\$17.23	\$334.13
\$254.13 10/6 - 3 ATM withdrawal at a Non-Wells Fargo ATM -\$22.00 \$232.13 10/6 - 4 Non-Wells Fargo ATM fee -\$2.00 \$230.13 10/7 - 1 Debit card purchase at Albertsons Supermarket -\$74.39 10/10 - 2 Check #1103 -\$65.00 \$155.74 10/5 - 2 Debit card purchase at Autozone -\$47.99 10/6 - 1 Debit card purchase at IHOP Restaurant -\$26.51 10/5 - 3 Debit card purchase at Autozone -\$17.23 10/5 - 3 Debit card purchase at Autozone -\$22.00 10/5 - 1 Debit card purchase at Subway Restaurant -\$11.27 10/6 - 2 Debit card purchase at Farmer Boys Restaurant -\$8.10 10/6 - 2 Debit card purchase at Farmer Boys Restaurant -\$8.10 10/6 - 4 Debit card purchase at Autozone -\$22.00 10/5 - 4 Debit card purchase at Farmer Boys Restaurant -\$8.10 -\$64.36 Overdraft Penalty Fee -\$22.00 -\$86.36 10/5 - 4 Debit card purchase at Autozone -\$8.59 Overdraft Penalty Fee -\$22.00 -\$86.36 -\$89.59 Overdraft Penalty Fee -\$22.00 -\$86.36	10/10 – 1			
10/6 - 3 ATM withdrawal at a Non-Wells Fargo ATM		another account	-\$80.00	\$25/113
\$232.13 10/6 - 4 Non-Wells Fargo ATM fee	10/6 – 3			\$254.15
10/6 - 4 Non-Wells Fargo ATM fee		Non-Wells Fargo ATM	-\$22.00	******
-\$2.00 \$230.13 10/7 - 1 Debit card purchase at Albertsons Supermarket -\$74.39 10/10 - 2 Check #1103 -\$65.00 \$91.74 10/5 - 2 Debit card purchase at Autozone 10/6 - 1 Debit card purchase at IHOP Restaurant -\$26.51 \$16.24 10/5 - 3 Debit card purchase at Autozone -\$17.23 -\$0.99 Overdraft Penalty Fee -\$22.00 -\$22.00 -\$22.99 10/5 - 1 Debit card purchase at Subway Restaurant -\$11.27 -\$34.26 Overdraft Penalty Fee -\$22.00 -\$56.26 10/6 - 2 Debit card purchase at Farmer Boys Restaurant -\$8.10 -\$65.36 Overdraft Penalty Fee -\$22.00 -\$86.36 -\$89.59 Overdraft Penalty Fee -\$22.00 -\$89.59	10/6 – 4	Non-Wells Farno ATM fee		\$232.13
10/7 - 1 Debit card purchase at Albertsons Supermarket	10/0 - 4	THOIP WELLS I LINGUI AT IN THE	-\$2.00	
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10/5 - 2 Debit card purchase at Autozone			-\$65.00	\$91.74
10/6 - 1 Debit card purchase at IHOP Restaurant -\$26.51	10/5 – 2			4
10/6 - 1 Debit card purchase at IHOP Restaurant		Autozone	-\$47.99	\$42.7E
IHOP Restaurant	10/6 – 1	Debit card purchase at		342.75
10/5 - 3 Debit card purchase at Autozone -\$17.23 -\$0.99 Overdraft Penalty Fee -\$22.00 -\$22.00 -\$22.99 10/5 - 1 Debit card purchase at Subway Restaurant -\$11.27 -\$34.26 Overdraft Penalty Fee -\$22.00 -\$56.26 10/6 - 2 Debit card purchase at Farmer Boys Restaurant -\$8.10 -\$64.36 Overdraft Penalty Fee -\$22.00 -\$86.36 10/5 - 4 Debit card purchase at Autozone -\$8.23 Overdraft Penalty Fee -\$22.00 -\$86.36 10/5 - 4 Debit card purchase at Autozone -\$89.59 Overdraft Penalty Fee -\$22.00 -\$111.59			-\$26.51	
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Overdraft Penalty Fee	10/5 – 3		-\$17.23	
-\$22.00				-\$0.99
-\$22.99 10/5 - 1 Debit card purchase at Subway Restaurant -\$11.27 -\$34.26 Overdraft Penalty Fee -\$22.00 10/6 - 2 Debit card purchase at Farmer Boys Restaurant -\$8.10 Overdraft Penalty Fee -\$22.00 -\$64.36 Overdraft Penalty Fee -\$22.00 -\$86.36 10/5 - 4 Debit card purchase at Autozone -\$3.23 -\$89.59 Overdraft Penalty Fee -\$22.00 10/10 Final Balance -\$111.59		Overdraft Penalty Fee	_\$22.00	
Subway Restaurant			\$22.00	-\$22.99
-\$34.26 Overdraft Penalty Fee	10/5 – 1		****	
Overdraft Penalty Fee		Subway Restaurant	-\$11.27	_\$34.26
-\$22.00		Overdraft Penalty Fee		204.20
10/6 - 2 Debit card purchase at Farmer Boys Restaurant -\$8.10 -\$64.36 Overdraft Penalty Fee -\$22.00 -\$86.36 10/5 - 4 Debit card purchase at Autozone -\$3.23 Overdraft Penalty Fee -\$22.00 10/10 Final Balance -\$111.59			-\$22.00	\$54.04
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Overdraft Penalty Fee	10/6 – 2	Farmer Boys Restaurant	-\$8.10	
-\$22.00				-\$64.36
10/5 - 4 Debit card purchase at Autozone -\$3.23 -\$89.59 Overdraft Penalty Fee -\$22.00 10/10 Final Balance -\$111.59		Overdraft Penalty Fee	-\$22.00	
Autozone -\$3.23 -\$89.59 Overdraft Penalty Fee -\$22.00 10/10 Final Balance -\$111.59				-\$86.36
-\$89.59 Overdraft Penalty Fee -\$22.00 10/10 Final Balance -\$111.59	10/5 – 4		_\$3.22	
-\$22.00 10/10 Final Balance -\$111.59		nutotolie	-\$3.23	-\$89.59
10/10 Final Balance -\$111.59		Overdraft Penalty Fee		
***************************************	10/10	Final Ralance	-\$22.00	_\$111 50
Total Cost of Overdraft Fees -\$88.00	70/10	T mai Dalaine		\$111.09
		Total Cost of Overdraft	Fees	-\$88.00

Chronological Posting: How the transactions actually occurred

DATE	TRANSACTION DESCRIPTION	\$+/-	BALANCE
10/5	Starting Balance		\$316.90
10/5 – 1	Debit card purchase at	-\$11.27	
	Subway Restaurant	-\$11.27	\$305.63
10/5 – 2	Debit card purchase at		\$505.05
	Autozone	-\$47.99	
			\$257.64
10/5 – 3	Debit card purchase at Autozone	-\$17.23	
	Autozone	-\$17.23	\$240,41
10/5 – 4	Debit card purchase at		4240.41
	Autozone '	-\$3.23	
			\$237.18
10/5 – 5	Return of Autozone purchase	\$17.23	
	purchase	\$17.23	\$254.41
10/6 – 1	Debit card purchase at		4204.41
	IHOP Restaurant	-\$26.51	
			\$227.90
10/6 – 2	Debit card purchase at Farmer Boys Restaurant	-\$8.10	
	railler boys Restaurant	-\$6.10	\$219.80
10/6 – 3	ATM withdrawal at a		4217.00
	Non-Wells Fargo ATM	-\$22.00	
			\$197.80
10/6 – 4	Non-Wells Fargo ATM fee	-\$2.00	
		-\$2.00	\$195.80
10/7 – 1	Debit card purchase at		\$175.55
	Albertsons Supermarket	-\$74.39	
			\$121.41
10/10 – 1	Online transfer of funds to another account	-\$80.00	
	another account	-\$60.00	\$41,41
10/10 - 2	Check #1103		441.41
2	arcan arros	-\$65.00	
			-\$23.59
	Overdraft Penalty Fee	-\$22.00	
10/10	Final Balance	-\$22.00	-\$45.59
. 0, 10	The Dollaries		\$40.07
	Total Cost of Overdraft	Fees	-\$22.00

Transaction Infraction



Slipping Behind: Low-Income Los Angeles Households Drift Further from the Financial Mainstream

Longitudinal Study of 2,000 Low-Income Los Angles Households

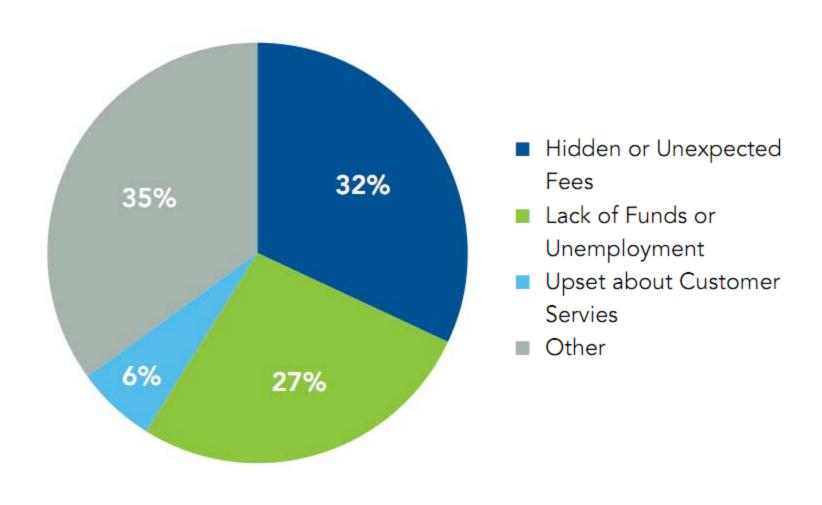
- Predominantly female, foreign born, and identify as Hispanic/Latino
- Nearly 8 in 10 report incomes less than \$25,000

KEY FINDING:

Among the working poor, banking is associated with savings. Even when faced with high rates of job loss and declining household income during the period of our survey, the banked were better able to sustain their savings behaviors, including those associated with long-term goals such as paying for college. Eighty-eight percent of banked households have at least one savings account and, even in times of economic turmoil, 67 percent of the banked actively save at least some of the time. Among the unbanked, only 9 percent report being able to save.



Slipping Behind: Reasons for Leaving Banking





Word Associations

PRODUCT 1

 Pay for things now, deceptive, high interest, cautious, can be useful, builds credit, service for customers, money for provider, debt, rat hole, convenient, cash back rewards, freedom, the devil, dangerous, eighteen, conspiracy, evil, thief, trap, points

PRODUCT 2

• Convenience, necessary, must have, beneficial, helpful, frustration, free, maintenance fees, comfort, fast money, responsibility, overdraft, easy, new shoes, indulgence, bills, in trouble, trap, deceiving, too nosy

PRODUCT 3

 Convenient, fees, usurious, useful, excessive, expensive, screwed, anger, rip off, helpful, crooked, untrustworthy, don't go there, scam, scary, expensive

PRODUCT 4

• Lifesaver, convenient, great thing, sometimes troublesome, can be expensive, fees, hidden fees, control, easy, safe, cheaper, security, not free, nice to have, fast reload, perfect, online shopping, indifferent, manageable, helpful, sketchy, Russell Simmons, gifts



Word Associations

CREDIT CARD

 Pay for things now, deceptive, high interest, cautious, can be useful, builds credit, service for customers, money for provider, debt, rat hole, convenient, cash back rewards, freedom, the devil, dangerous, eighteen, conspiracy, evil, thief, trap, points

CHECKING ACCOUNT

• Convenience, necessary, must have, beneficial, helpful, frustration, free, maintenance fees, comfort, fast money, responsibility, overdraft, easy, new shoes, indulgence, bills, in trouble, trap, deceiving, too nosy

CHECK CASHER

• Convenient, fees, usurious, useful, excessive, expensive, screwed, anger, rip off, helpful, crooked, untrustworthy, don't go there, scam, scary, expensive

PREPAID CARD

• Lifesaver, convenient, great thing, sometimes troublesome, can be expensive, fees, hidden fees, control, easy, safe, cheaper, security, not free, nice to have, fast reload, perfect, online shopping, indifferent, manageable, helpful, sketchy, Russell Simmons, gifts



Overdraft is Driving Prepaid

Control/Hidden Fees

Should not be allowed to spend more than you have

Nearly all participants had experience with overdrafts.

- A number cited "personal responsibility" in overdrafts.
- Most agreed that the size of the overdraft fee was unreasonable.
 - "\$35 on \$5 is ridiculous"

Seven participants would like to be able to overdraft.

Fifteen participants would like to access a line of credit.



Specifics on Prepaid Cards

Benefits

- Spending Control
- Budgeting
- Anonymity
- Security of Funds (as opposed to carrying cash)

Negatives

- Volume of fees
 - Purchase fee
 - Monthly fee
 - ATM fee
 - Customer Service fee
- "Holds" on funds



Prepaid Card Fees

What fee did you pay to purchase the card?

• Average: \$3.38

• Range: \$0.00 -\$10.00

What was the reloading fee?

• Average: \$3.82

• Range: \$3.00 to \$4.95

What was the ATM fee?

• Average: \$2.81

• Range: \$1.00 -\$4.95

• Most do not withdraw cash at the ATM with the card.



Prepaid Card Loading Information

How much did you put on the card when purchased?

• Average: \$255

• Range: \$20-\$1,500

Most reloaded the card multiple times.

How much money did you reload on the card?

• Average: \$272

• Range: \$10-\$1,750

How often did you reload the card?

• Average: 2.9 weeks

• Range: 1 week to 8 weeks

Most reloaded the card in a store.



Recommendations for Banks

Prevent reordering of transactions specifically designed to increase overdrafts

One page disclosure box for checking accounts

Reasonable overdraft fee size

Speed up funds availability

Provide a comprehensive suite of products such as money orders, check cashing, bill pay services, and personal loans



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