

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  
September 12, 2012 - 8:50 A.M.

The meeting of the FDIC Advisory Committee on Economic Inclusion ("ComE-IN" or "Committee") was called to order by Martin J. Gruenberg, Acting 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 Robert A. Annibale, Global Director, Citi Microfinance and Community Development; Michael Barr, Professor of Law, University of Michigan Law School; Ted Beck, President and Chief Executive Officer ("CEO"), National Endowment for Financial Education; Kelvin Boston, Executive Producer and Host of PBS's *Moneywise with Kelvin Boston*; José Cisneros, Treasurer, City and County of San Francisco, California; Martin Eakes, CEO, Self-Help/Center for Responsible Lending, Durham, North Carolina; Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen AME Cathedral of New York; Ester R. Fuchs, Professor, School of International and Public Affairs, Columbia University; Wade Henderson, President and CEO, Leadership Conference on Civil Rights, and Counselor to the Leadership Conference on Civil Rights Education Fund; Andrea Levere, President, Corporation for Enterprise Development; Alden J. McDonald, Jr., President and CEO, 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; J. Michael Shepherd, President and CEO, Bank of the West and BancWest Corporation; John C. Weicher,

Director, Hudson Institute's Center for Housing and Financial Markets; and Deborah C. Wright, Chairman and CEO, Carver Bancorp Inc., New York, New York.

Lawrence K. Fish, Former Chairman and CEO, Citizens Financial Group, Inc.; John W. Ryan, Executive Vice President, Conference of State Bank Supervisors; Robert K. Steel, Deputy Mayor for Economic Development, The City of New York; and Peter Tufano, Peter Moores Dean and Professor of Finance, Said Business School, Oxford University and Founder and CEO of D2D Fund, were absent from the meeting.

Members of the Corporation's Board of Directors present at the meeting were Martin J. Gruenberg, Acting Chairman, and Richard Cordray, Director, Consumer Financial Protection Bureau ("CFPB"). Roberta K. McInerney, Designated Federal Officer for the Committee and Deputy General Counsel, Corporate, Consumer, Insurance, and Legislation Branch, FDIC Legal Division, also was present at the meeting. Corporation staff who attended the meeting included Willa M. Allen, Gwendolyn F. Alston, Steven O. App, M.P. Azevedo, Luke H. Brown, Kathleen S. Brueger, Susan Burhouse, David Chapman, Alexander S. Cheng, Kimberly K. Copa, Carolyn D. Curran, Patricia B. Devoti, Dianne E. Dixon, Bret D. Edwards, Keith S. Ernst, Robert E. Feldman, Richard Foley, Janet R. Gordon, Leneta G. Gregorie, Sally J. Kearney, Cheh Kim, Ellen W. Lazar, Marianne H. Lloyd, Christopher Lucas, Jonathan N. Miller, Robert W. Mooney, Janet V. Norcom, Erica Noyes, Yazmin E. Osaki, Richard Osterman, Mark E. Pearce, Luke W. Reynolds, Sherrie Rhine, Paul Robin, Betty Rudolph, Barbara A. Ryan, Richard M. Schwartz, Kimberly Stock, Maseh Tahiry, and James C. Watkins.

Acting Chairman Gruenberg opened and presided at the meeting. He began by providing an overview of the meeting agenda, advising that the morning would be spent reviewing the results of the FDIC's *2011 National Survey of Unbanked and Underbanked Households* ("Household Survey"), which he noted was conducted, as was the 2009 Household Survey, in partnership with the U.S. Census Bureau. He further advised that the Household Survey would be conducted every two years; that, as a result, the FDIC would develop over time a granular database on the demographic characteristics of the unbanked and underbanked that will be significant on a national, regional, and state-by-state basis; that, in his view, the survey serves as a foundational tool for the work of the Committee; and that one of the purposes for conducting the survey is to make the data widely available, via the [www.economicinclusion.gov](http://www.economicinclusion.gov) web site, for all parties that may have an interest in the information. He next indicated that the luncheon speaker would be Joseph A. Smith, Jr., Monitor,

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Office of Mortgage Settlement Oversight; that the first afternoon panel of speakers would address the work of moving forward with model safe accounts; and that the second afternoon session would involve an update on the work of the newly formed Mobile Financial Services Subcommittee. After informing the Committee that he would be leaving at 2:30 p.m. to attend a meeting on Capitol Hill and that Mark Pearce, Director, FDIC Division of Depositor and Consumer Protection ("DCP"), would chair the last hour of the meeting, Acting Chairman Gruenberg turned the discussion over to Mr. Ernst, Associate Director, Consumer Research and Examination Analytics, Policy and Research Branch, DCP.

Mr. Ernst expressed his pleasure in sharing the results of the 2011 Household Survey, noting that the 2009 survey report and its underlying data have become an important resource for a wide range of stakeholders interested in economic inclusion; that, in addition to providing insights into changes since 2009, the 2011 survey has added estimates of the types of accounts held by households and provides increased information about the frequency and timing of alternative financial services use; and that, together, the 2009 and 2011 surveys form a strong platform of knowledge for understanding the changing scope and nature of the challenge of expanding access to the unbanked and underbanked. Observing that the survey was an interdivisional effort, involving staff from DCP, the Division of Insurance and Research, the Legal Division, as well as Barbara Ryan, Chief of Staff, who also headed the 2009 survey, he offered praise to staff who worked around the calendar to collect and analyze data and compile the report. He then introduced Yazmin Osaki, Senior Consumer Research Associate, DCP, and Susan Burhouse, Senior Financial Economist, DCP, to present the 2011 Household Survey results.

Ms. Osaki, reaffirming that the survey had been a team effort, indicated that in addition to herself and Ms. Burhouse, the members of the team included Sarah Campbell, David Chapman, Leneta Gregorie, Ryan Goodstein, Luke Reynolds, Sherrie Rhine, and Eric Robbins. She then provided background information on the survey effort, advising that economic inclusion is a priority for the FDIC, which has in place a number of initiatives designed to foster economic inclusion, many of which the Committee has helped to design and support; that, in addition, the FDIC has a statutory mandate pursuant to section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 to provide an estimate of the unbanked population in the United States; that the Household Survey is conducted as a supplement to the Current Population Survey ("CPS"), a monthly survey sponsored jointly by the Census Bureau and the U.S. Department of Labor and designed

to provide employment statistics for the adult civilian population in the United States; and that the design and coverage of the CPS allows the FDIC to provide previously unavailable estimates of the unbanked and underbanked at national, state, and MSA levels. She reminded Committee members that the first Household Survey was conducted in January 2009, with the results released to the public and the Committee in December 2009, and noted that the 2011 survey was conducted in June 2011 and captured the responses from nearly 45,000 households. Regarding the 2009 data, she advised that the estimates had been revised to be consistent with 2011 methodology, with the results yielding estimates that are not materially different from the ones released in 2009, and that the 2009 questionnaire was revised for 2011 and, as a consequence, certain estimates and results are not comparable for the 2009 and 2011 surveys.

Next, Ms. Osaki provided some of the key findings of the 2011 survey, first noting that, with over 28 percent of households identified as unbanked or underbanked in 2011, there continue to exist opportunities to increase banking engagement in the United States; and that, specifically, 8.2 percent of households are unbanked, having no checking or savings account, and 20.1 percent of households are underbanked, having used alternative financial services ("AFS") within the previous year despite having a bank account. She then identified as a second set of key findings information on the types of accounts held by households, noting that 10 percent of households do not have a checking account and almost 30 percent of households do not have a savings account, findings that she suggested represent a clear opportunity to expand savings account ownership among households. Finally, she identified as a third set of key findings data indicating that a sizeable portion of households use AFS, with survey results showing that approximately one quarter of all households had used AFS in the prior year; that one in ten households had used two or more AFS during the same period; that 12 percent of all households had used an AFS product within the previous 30 days; and that an even larger number of unbanked and underbanked households, 40 percent, had used an AFS product within the previous 30 days.

Ms. Osaki then addressed the survey findings in more detail, observing that the 2011 estimate of unbanked households at 8.2 percent represents nearly 10 million households that include approximately 11 million adults; that the estimate of underbanked households at 20.1 percent translates into 24 million households or 51 million adults; and that, at the other end of the spectrum, close to 70 percent of U.S. households were fully banked and had not used AFS within the previous year. Regarding the fully banked, she reiterated that there still exist opportunities to

improve the quality and sustainability of banking relationships for such households, citing as an example the opportunity to expand savings. She then noted that the proportion of the unbanked increased slightly by 0.6 percentage points from 2009 to 2011, representing an increase of 821,000 households; that it was currently difficult to assess whether the increase should be viewed as large or small, but that trends should become more clearer as subsequent surveys are conducted; that the highest statistically significant increases occurred among households that typically have the highest unbanked rates such as unemployed households and households in the lowest income category of less than \$15,000 in earned income; but that, when viewed from the perspective of race, the reverse was true, with white households experiencing a statistically significant increase while the differences for other races were not statistically significant.

Turning next to the change in the proportion of the underbanked from 2009 to 2011, Ms. Osaki explained that the estimates were not directly comparable primarily because questions regarding nonbank remittances and refund anticipation loans were asked quite differently. Elaborating, she advised that although the definition of "underbanked" in 2009 and 2011 included households that had a bank account, but also made use of AFS such as non-bank money orders, non-bank check cashing, payday lending, pawn shops, rent-to-own, and refund anticipation loans ("RALs"), the 2011 survey added non-bank remittances to the list of AFS and the timing of use for the two surveys was different, with the 2011 survey asking about use of each service within the past year and the 2009 survey asking about use of non-bank money orders, non-bank check cashing, payday lending, pawn shops, and rent-to-own at least once or twice a year and use of RALs within the past five years. She advised that despite the lack of direct comparability, however, excluding from consideration remittances and RALs provided evidence that in 2011 the proportion of banked households that used AFS within the past year had increased by one percentage point. She further advised that adding non-bank remittances to the "underbanked" definition increased the national underbanked rate by 1.5 percentage points, with greater increases for specific demographics such as an increase in the underbanked rates for Hispanics and Asians of 5.3 percent and 6.4 percent, respectively.

With regard to specifics on unbanked and underbanked rates by demographic groups, Ms. Osaki reported that, consistent with 2009 results, the 2011 survey showed that unbanked and underbanked households are disproportionately represented among non-Asian minority, lower income, less educated, and unmarried family households, as well as households with younger householders, with unbanked rates for these groups hovering

around 20 percent and underbanked rates for these groups oftentimes closer to 30 percent. When viewed from the perspectives of race and ethnicity, income, and household type, she stated that one in five black and Hispanic households was unbanked as compared to fewer than four percent of white and Asian households, with underbanked rates also considerably higher for non-Asian households at around 30 percent as compared to 16 percent for white and Asian households; that unbanked rates declined sharply with increasing income, with rates as high as 28 percent for households earning less than \$15,000 to as low as 0.4 percent for households earning at least \$75,000 a year, with underbanked rates showing less dramatic from one income category to another; and that, with regard to household types, the highest unbanked and underbanked rates were among unmarried family households, at approximately 30 percent for both male and female unmarried family households, and the lowest unbanked and underbanked rates were among married family and non-family households, with the latter type of households comprised of single persons living alone or with roommates. Regarding unmarried households, she pointed out that this segment stood out, sometimes showing encouraging results while, at other times, showing cause for concern, particularly when you consider the fact that over 50 percent of children living in unbanked households live in unmarried female family households despite the fact that such households represent only 13 percent of all U.S. households. Concluding her review of unbanked and underbanked rates by demographic groups, Ms. Osaki presented results for households by age, by region, and by state, noting that both unbanked and underbanked rates declined consistently with increasing age, with the highest rates for both groups evident in households under age 24, with unbanked and underbanked rates in that age group of 17 percent and 31 percent, respectively; that, geographically, consistent with 2009 results, the Southern region of the country had the highest proportion of unbanked households at about 10 percent, as compared to about seven percent in other regions, with the South having 46 percent of the country's unbanked households, although it is home to only 37 percent of all U.S. households; that, similarly, the South had the highest proportion of underbanked households at 23.2 percent; that unbanked rates varied significantly by state, from a low of 1.9 percent in New Hampshire to a high of 15.1 percent in Mississippi, with three states - West Virginia, Wyoming, and Minnesota - experiencing statistically significant increases since the 2009 survey; and that underbanked rates varied from 12.5 percent in New Hampshire to 31.2 percent in Nevada. Reiterating the noncomparability of 2009 and 2011 survey results for the underbanked because of differences in how this group was defined, she advised that nevertheless, after excluding remittances and RALs, there was evidence that use of AFS among

banked households increased in eight states - Alabama, Arkansas, Georgia, New Jersey, Nevada, Rhode Island, South Dakota, and Vermont - and a decrease in use of AFS among banked households in Alaska and the District of Columbia.

Having discussed which demographic groups have the highest and lowest proportions of the unbanked and underbanked, Ms. Osaki next turned the discussion to the demographic composition of the unbanked, underbanked, and fully banked. Summarizing the results for household composition by banking status, she indicated that the demographic distribution of the unbanked is very different from that of the banked, both underbanked and fully banked; that, along some dimensions such as race, age, and family type, appear to be a blend of the unbanked and fully banked; and that, along other dimensions such as employment and income, the underbanked appear much more similar to the fully banked. Elaborating, she reported that, with respect to racial composition, the underbanked fell between the unbanked and fully banked in terms of distribution, with roughly one-third of the underbanked being white, black, and Hispanic as compared to the fully banked, 80 percent of which are white and only eight percent of which are black or Hispanic; and that, with respect to household type, unmarried female households represent about 30 percent of the unbanked, but only 19 percent of the underbanked and less than 10 percent of the fully banked, while the opposite is true for married couples, which account for more than half of the fully banked, about one-fifth of the unbanked, and approximately 44 percent of the underbanked. She then reported that, with respect to income, over 80 percent of the unbanked earn below \$30,000 a year and more than half earn below \$15,000 a year, whereas the distribution of the underbanked and the fully banked are more evenly distributed among income levels; and that, with respect to employment, the unbanked have considerably higher proportions of households that are unemployed or are not in the labor force, over 60 percent, compared to 37 percent of underbanked households that are unemployed or are not in the labor force.

Ms. Osaki next turned her attention to survey insights on the previous banking status of the unbanked and the reasons given for why they are unbanked, noting that of the 8.2 percent of households that are unbanked, almost 45 percent were previously banked; that one in five previously banked households had become unbanked within the previous year; and that over half of unbanked households, 4.4 percent of all households, have never been banked. She pointed out, however, that for certain demographic groups, the rate of the unbanked who had never been banked was even higher, citing as an example the 15 percent of Hispanics who have never had a bank account. Regarding reasons for being unbanked, she advised that, consistent with 2009 results, the

most common reason identified by never banked and previously banked respondents was not having enough money, with the second most common reason being that households did not need or want an account, although previously banked households were less likely than the unbanked to say they did not need or want an account.

Reiterating that the 2011 survey captured new information on the type of accounts owned by households, Ms. Osaki reported that close to 90 percent of banked households own a checking account; that only 69 percent own a savings accounts, which she suggested represents a clear opportunity to expand savings account ownership; and that about two-thirds of households own both a checking and a savings account. She further reported that, when looking at the distribution of accounts by banking status, underbanked households are less likely to have a savings account, with slightly over two-thirds of the underbanked having a savings account as compared to 80 percent of fully banked households. She next addressed account ownership by race and income, noting with respect to race that slightly over half of Hispanic and black households have a savings account, which is considerably lower than other races; and noting with respect to income that checking accounts and even more so savings accounts are positively correlated with income, with only two-thirds of households earning under \$15,000 a year having a checking account, compared to nearly all households earning at least \$75,000 a year, and only 37 percent of households earning under \$15,000 a year having a savings account, compared to almost 90 percent of households earning at least \$75,000 a year. Finally, with respect to account ownership by household type, Ms. Osaki stated that unmarried female households have among the lowest levels of account ownership, with about three-quarters having a checking account and about 54 percent having a savings account, as compared to married couple households, the vast majority of which own a checking account and close to 80 percent of which own a savings account.

Next, Ms. Burhouse, noting that data on household use of AFS is a key determinant of the survey definition of "underbanked," indicated that, by identifying households that are getting their transaction or credit services outside the financial mainstream, the types of products and services being used, and when, how, and why they are being used, is helpful in understanding where there might be missed market opportunities for banks. Briefly summarizing the survey questions regarding use of AFS, she advised that households had been asked about their use of three transaction AFS - nonbank money orders, nonbank check cashing services, and nonbank remittances - and four different types of credit AFS products - payday lending, pawn shops, RALs, and rent-to-own agreements; and that respondents were asked whether they

had ever used each of the products and, if affirmative, whether they had used the products within the last 12 months and, for all AFS except rent-to-own agreements and RALs, whether they had used the products or services within the last 30 days.

Proceeding to the survey results on AFS use, Ms. Burhouse reported that, in 2011, 43 percent of all U.S. households had used at least one of the seven AFS included in the survey, as compared to slightly more than half that had never done so; and that about one-quarter of households had used AFS within the last year, including 12 percent of households that had used AFS within the last 30 days. Concentrating specifically on AFS users, she advised that nearly 60 percent of households that have ever used AFS had done so within the last year, including more than one in four AFS users had used an AFS within the last 30 days; that almost half of the subset of households that have used AFS in the last year had done so within the last 30 days; that AFS use is more prevalent among younger, less educated, and lower income households; and that higher proportions of black and Hispanic households have used AFS than white households.

Next addressing use of AFS by unbanked and underbanked households, Ms. Burhouse stated that unbanked households are the heaviest AFS users, with almost two-thirds of unbanked households having used at least one AFS in the last year and close to one-half having used at least one AFS in the last 30 days; that, nevertheless, there is a sizeable minority of unbanked households, about one in five, that have never used any AFS, suggesting that a relatively large segment of households rely on cash transactions or other types of informal arrangements; that, of the unbanked households that have ever used AFS, almost 90 percent have done so in the last year and 60 percent have done so in the last 30 days; and that almost three-quarters of previously banked households have used AFS in the last year, as compared to 60 percent of households that have never had a bank account. Regarding underbanked households, she reiterated that, by definition, they have used at least one type of AFS in the last year and noted that roughly 40 percent of underbanked households have used AFS in the last 30 days, with 60 percent having used AFS in the last year, but not in the last month; and that the proportion of underbanked households that have used AFS in the last 30 days is slightly smaller than the proportion of unbanked households, 46 percent, that have used AFS in the last 30 days. She advised that, notably, even some fully banked households have used AFS at some point in the past, though not within the previous year. Regarding the different types of AFS products used by households, she indicated that, overall, transaction products are more widely used than credit products, with about one in four households having used an AFS transaction product in

the last year as compared to only about six percent of households having used an AFS credit product during the same timeframe; and that just four percent of households have used both transaction and credit products within the past year.

After reminding Committee members that some of the 2011 survey results were not comparable to 2009 because of the differing definitions of "underbanked," Ms. Burhouse advised that, in the aggregate, there is evidence of increased AFS use, with larger shares of both unbanked and fully banked households in 2011 reporting ever having used an AFS product; that, overall, 36 percent of all households in 2009 had used one of the AFS products included in the 2009 survey versus 41 percent of households, excluding nonbank remittances, in 2011; and that increases in AFS use across a wide variety of demographic groups occurred both in transaction and credit products, with larger proportions of households of different ages, education levels, races and ethnicities, and family types reporting ever having used AFS in 2011 than in 2009. Switching back to an exclusive look at 2011 data on use of multiple AFS products, she reported that slightly less than 10 percent of households had used two or more different types of AFS products in the last year, with more than one in three unbanked households having used two or more AFS products in the last year, as compared to about one quarter of underbanked households; that 12 percent of unbanked households had used three or more different AFS products in the last year; and that the share of unbanked households that had used multiple AFS transaction products in the last year was almost double the share of underbanked households that had done so. She further reported that the proportion of all households that had used multiple AFS products in the last 30 days was less than three percent as compared to six percent of underbanked households and over 16 percent of unbanked households.

Ms. Burhouse then discussed households' use of specific AFS products, stating that nonbank money orders are the most commonly used type of AFS, with almost one in five households have purchased a money order from a nonbank provider within the last year; that nonbank check cashing is the second most commonly used type of AFS, with roughly eight percent of households have used such a service in the last year; and that the other AFS products and services are less commonly used, with roughly one to four percent of households using nonbank remittances and AFS credit products. When viewed from the perspective of household status, she advised that among unbanked households, nonbank money orders and check cashing are still the top two most commonly used products; but that the share of unbanked households using the products is much higher than that for all households, with about half of unbanked households having used a nonbank money order in

the last year and almost 40 percent of such households having used a nonbank check cashing service; and that about 10 percent of unbanked households reported having used nonbank remittances and pawn shops within the past year. With respect to underbanked households, she advised that the use of nonbank money orders is particularly high, with almost three out of four such households having used a nonbank money order within the last year; but that nonbank check cashing is much less prevalent among underbanked households than among unbanked households, with 20 percent of underbanked households having used a nonbank check cashing service as compared to 40 percent of unbanked households; and that the proportion of underbanked households that have used pawn shops, rent-to-own agreements, and RALs within the past year was similar to the unbanked. As for use of AFS products and services within the past 30 days, Ms. Burhouse pointed out that there is heavier usage, particularly for nonbank check cashing, among unbanked households, with over one quarter of those households having used nonbank check cashers in the last month as compared to approximately nine percent of underbanked households; that, although the difference was smaller for use of nonbank money orders, the share of unbanked households, almost one-third, having used the product in the last 30 days was somewhat larger than the share of underbanked households, 28 percent, having purchased a nonbank order in the last 30 days; and that, although use of pawn shops and nonbank remittances is similar for the unbanked and underbanked, there is a difference between the groups' use of payday loans, with very low use among unbanked households given that a bank account is generally a requirement for such loans. Finally, Ms. Burhouse noted that, among underbanked households that had ever used nonbank money orders, more than one-third did so in the last 30 days, with more than one-quarter of underbanked households that had ever used nonbank check cashers having done so in the last 30 days, as compared to more than one-half of unbanked households that had ever used nonbank money orders and nonbank check cashers having done so in the last 30 days; and that households that reported using AFS in the last month tend to have done so numerous times, with almost 20 percent of underbanked households having used transaction AFS doing so in the last month on three or more separate occasions as compared to 40 percent of unbanked households.

Next addressing the reasons why households use AFS providers rather than going to banks for those services, Ms. Burhouse pointed out that, overall, convenience was cited by households that had used nonbank money orders as the number one reason for using the product, with the second most cited reason being a belief that banks would charge more for money orders than nonbank providers; that, overall, convenience was also the reason cited by households that had used check cashers as the number one

reason for using the service, although unbanked users of nonbank check cashers cited not having a bank account as the most common reason; that, overall, the ability to get money faster from a nonbank check casher was another important reason for using the service, cited by almost 17 percent of customers; that convenience and speed were also the most common reasons cited by households for using nonbank remittances, with one-third of all households using remittances doing so for convenience and nearly one-quarter doing so because they felt AFS providers would get the money to recipients faster than a bank could; and that just over 10 percent of households using nonbank remittances do so because they perceive that remittances are more expensive at banks than at AFS providers.

Ms. Burhouse stated that, on the other hand, the reasons cited for using AFS credit products were different than those cited for using AFS transaction products, with convenience not being nearly as big a factor. She advised that households that use payday lenders feel that it's simply easier than qualifying for a bank loan, with 40 percent of payday loan and pawn shop users citing this as the most common reason for using these services; and that a relatively large proportion of households using AFS credit, about one in five, do so because they feel that banks do not provide small-dollar loans. She also advised that, when households using AFS credit products were asked why the funds were needed, almost half said they needed the money to pay for basic living expenses and an additional 18 percent felt they needed to make up for lost income, with unbanked households citing these reasons slightly more often than underbanked households. She noted, however, that the share of households that needed AFS credit to pay for everyday living expenses rose from 35 percent in 2009 to 46 percent in 2011, suggesting a rise in household financial distress.

Switching gears, Ms. Burhouse then reviewed the characteristics of subsets of households that rely more heavily on AFS than others, i.e., those households that had used AFS in the last 30 days and those that used multiple types of AFS in the last year. In that regard, she indicated that, in terms of banking status, about one-third of households that have used multiple of AFS and a similar proportion of households that used AFS in the last 30 days are unbanked, with the remaining two-thirds underbanked; that over 60 percent of multiple AFS users have checking accounts and almost 40 percent have both checking and savings accounts; that almost half of the households that have used AFS in the last month had also used multiple types of AFS in the last year; and that, in terms of demographic characteristics, households that tend to be overrepresented among the unbanked and underbanked also tend to be overrepresented

among the heaviest AFS users with, for example, large proportions of recent and multiple AFS users being black and Hispanic and unmarried female households. Commenting on the sizeable share of households that are already engaged in the banking system to some extent, but nevertheless make heavy use of nonbank financial products, she suggested that the finding should be kept in mind by policymakers and practitioners who are developing inclusion strategies.

On the issue of prepaid cards, Ms. Burhouse, after pointing out that prepaid cards were not included in the "underbanked" definition and that the survey did not distinguish between cards issued by banks and those issued by nonbanks, reported that about one in ten households in 2011 reported having ever used a prepaid card, relatively consistent with the 2009 survey, but that there was growth in the share of unbanked households using prepaid cards, climbing from 12 percent in 2009 to 18 percent in 2011; and that, overall, more than 15 percent of prepaid card users are unbanked, with another one-third being underbanked. She then pointed out that payroll cards, which are also not included in the definition of "underbanked," are less widely used than prepaid cards, with only about three percent of all households receiving wages on payroll cards at the time of the survey; that payroll cards are somewhat more prevalent among unbanked and underbanked households; and that both prepaid and payroll card users are more likely to use AFS products, both credit and transaction, than households that don't use the cards, with about one quarter of prepaid and payroll card users having used AFS in the last month as compared to 10 percent of households that do not use the cards.

Moving to the likelihood that unbanked households would open an account in the future, Ms. Burhouse reported that the majority of unbanked households, about 60 percent, indicated that they were not too likely or not likely at all to open an account in the future, with only 14 percent indicating that they were very likely to do so; that, nonetheless, there were notable differences between previously banked and never banked households, with about half of all never banked households indicating that they are not likely to open an account in the future and just one in five indicating they are very likely to do so as compared to almost half of previously banked households indicating they were somewhat likely or very likely to open another account going forward; and that, among previously banked households, about two-thirds of those that became unbanked within the past year felt they were very or somewhat likely to open an account as compared to less than half, 44 percent, of those who had become unbanked more than a year ago. She also reported that the stated likelihood of opening an account in the future varied

according to household experience with AFS providers, advising that larger shares of households that had used AFS in the last year felt they were somewhat or very likely to open an account, with almost half of unbanked households that had used AFS credit in the last year indicating they were likely to open an account, and larger shares of unbanked households that used payroll and prepaid cards indicating being likely to open an account. From a demographic perspective, she reported that unmarried female family households are among the most likely to open an account in the future, with almost one in five such households indicating that they are very likely to do so; that younger households also appear more likely to open an account going forward, with just over half of unbanked households headed by someone aged 24 or younger indicating a likelihood of opening an account and one-quarter indicating they are very likely to do so.

In closing, Ms. Burhouse addressed the reasons households provided for their likelihood to open an account in the future, noting that the most common reasons were to write checks and pay their bills, to secure the household's money, and to save money for the future, with the difference between reasons given by never banked and previously banked households not being as large as for other measures on the survey. She stated that, hopefully, understanding the reasons households wish to have an account, along with the characteristics of households that feel they are likely to open an account, would be helpful in developing appropriate products and outreach strategies.

Concluding the presentation of the 2011 Household Survey results, Ms. Osaki laid out four implications of the survey: that the survey highlights the need to better understand the different segments of the unbanked and underbanked population to hopefully make economic inclusion strategies more targeted and effective; that banking status is dynamic, with there being no guarantee of long term or full engagement in the financial mainstream by virtue of having a bank account, and that, therefore, effective economic inclusion strategies require not only bringing households into the banking system, but keeping them in the system; that having a bank account appears to be associated with households' positive perceptions about the value of an account and also with less use of AFS; and that financial institutions that are interested in pursuing the market opportunities represented by the unbanked and underbanked need to do a better job in demonstrating the value of having an account, particularly with respect to AFS users who perceive nonbank provides as more convenient, faster, less expensive, or lower barriers to qualification. She then directed Committee members to the [www.economicinclusion.gov](http://www.economicinclusion.gov) web site for the full details of the report at regional, state, and MSA levels.

Acting Chairman Gruenberg, correcting an earlier oversight, announced to the Committee that Richard Cordray, Director (Director, Consumer Financial Protection Bureau), was present at the meeting. After welcoming Director Cordray, he then announced that the meeting would briefly recess. Accordingly, at 10:01 a.m., the meeting stood in recess.

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The meeting reconvened at 11:02 a.m. that same day, at which time Mr. Ernst, after briefly summarizing the main findings of the 2011 Household Survey, opened the floor to Committee member questions and discussion of the survey findings and implications.

Mr. Henderson began the discussion by congratulating staff on the depth of the survey, presentation of its findings, and the clarity of the presentation. He then noted that a study conducted by the Educational Testing Service ("ETS"), entitled "Fault Lines in Our Democracy: Civic Knowledge, Voting Behavior, and Civic Engagement in the United States," shows a correlation between academic attainment, or the lack thereof, poverty, and civic engagement, and asked whether any further analysis had been done to determine the level of household academic attainment in relation to banking status; the cost disparities associated with the use of AFS by unbanked and underbanked households, particularly African American and Latino households; and household exposure to financial literacy. In response, Mr. Ernst indicated that the survey data would allow staff to take a closer look at the educational attainment of African American and Latino households in relationship to banking status, which could be done going forward, and that the points raised about the cost of AFS use and exposure to financial literacy were interesting areas that could possibly be explored in future surveys. In follow up, Mr. Henderson suggested that it might be important to look at adding the overlay of financial services to the correlation between lack of academic attainment and lack of civic engagement demonstrated in the ETS report and also to look at whether African American and Latino households, which had been most adversely impacted by the foreclosure crisis, may be moving to AFS more out of necessity than convenience. Mr. Ernst agreed that looking more deeply into the factors that may have led people to become unbanked and obtaining more information on the relationship between families, their household standing, and their use of AFS would be interesting avenues of exploration that could be followed up on by staff. On the issue of cost, Mr. Eakes suggested that defining inclusion as being banked or unbanked may not really address whether consumers have a mechanism for meeting their financial needs in a low-cost, non-

exploitive way, and that perhaps future research should put more emphasis on determining the actual cost of AFS products and services as compared to bank products and services and whether certain AFS providers may be a better entry point into mainstream financial inclusion. Mr. Annibale, citing remittances as an example, suggested that it is important to know whether consumers are making an economic decision based on lower cost; and Mr. Shepherd, pointing to the timeliness of Committee discussions about mobile and digital delivery of services, suggested that perhaps that is an area where a greater sense of certainty and security can be offered by banks at a lower cost.

Ms. Levere also thanked staff for a great presentation, then asked that staff give some thought to the possibility of looking at the correlation between liquid asset poverty and lack of savings accounts and use of AFS; whether starting early with savings might be an effective means of bringing households into the banking system; and what strategies might be considered to bring about a change in the use of AFS to supplement household incomes. In response, Mr. Ernst noted that, although the data indicate that savings accounts heavily distribute towards the higher end of incomes, it also shows a substantial base of savings accounts at the lower end of household income, and the extent to which the accounts are being utilized and the amount of funds in the accounts may be an area for future study; and Ms. Burhouse, in agreement, noted that the data does show that having both a checking and a savings account is associated with the least use of AFS. Mr. McDonald suggested that the Committee, at some point, make a recommendation that financial education be mandatory at all levels in the school system.

Mr. Orozco, addressing the implications of the survey, acknowledged that segmentation is an important concept in economic inclusion strategies, but suggested that segmentation by race alone would not provide a complete picture and that it was also important from a policy standpoint to look at determinants of two major predictors of unbanked capability - the need to perform cash transactions and the extent of integration into formal market economies - to target the particular needs of specific populations to get them into savings products. He further suggested, with regard to the implication that banks need to more clearly demonstrate the value of an account to AFS users, that such a strategy takes a group effort, involving government, the private sector, and civil society, citing as an example the remittance provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act which, he noted, might be an opportunity to bring a large number of people into the financial mainstream.

Mr. Boston, expressing alarm at the number of unbanked and underbanked, particularly for people of color, asked whether the data were skewed because only people who are interested in a banking relationship are represented in the numbers, in response to which Mr. Ernst advised that, although it is a good idea to always be cautious and skeptical of consumer data and to look for corroboration of the data whenever possible, the Household Survey is a supplement to the CPS, which is designed to be representative of the non-institutionalized civilian population in the United States.

Rev. Flake asked whether the data captured individuals who, during the course of the recessionary period, have a different attitude as it relates to utilizing their available funds, in response to which Mr. Ernst indicated that the data do show that those relying on AFS were much more likely in 2011 to indicate that their motivation for doing so was to cover basic living expenses and that there are substantial proportions of households indicating they do not need or want an account or perceive that they do not have enough money for an account, but that the reasons for being banked do not capture the nuance of shifting attitudes due to recessionary pressures. In follow up, Mr. Beck and Ms. Levere questioned whether there is a disconnect between banking minimums and what consumers perceive those minimums to be and whether better understanding of what is meant by "enough money" might be the appropriate place to begin targeting underserved populations. Mr. Cisneros, in answer, stated that in launching Bank On programs, it had become clear that consumer misperceptions do exist, that financial education to dispel some of the misperceptions is critical to economic inclusion efforts, and that, in future research efforts, it might be beneficial to explore those who opened accounts and their reasons for opening accounts, whether households that want to be banked don't understand the process, and how many households attempted to open an account, but were turned away. Mr. Murphy agreed that one of the reasons some households are unbanked is lack of knowledge about the options available to them and that it was important to engage community advocates in educating the public rather than placing sole responsibility on financial institutions. Mr. Weicher asked whether staff could determine whether the previously banked are no longer banked for reasons not of their own volition, such as loss of employment, a substantial pay cut, or some other economic factor, in response to which Mr. Ernst advised that staff could link the CPS data to explore the relationship between banking status and employment status, but noted that the trend emerging from the discussion appeared to be a desire on the part of Committee members to know more about the triggers for entering and exiting the banking system, which could

be explored for the 2013 survey because of limits to what could be done with the current data.

Acting Chairman Gruenberg noted that he found it striking not that about 50 percent of households with incomes below \$15,000 are unbanked or underbanked, but that nearly 50 percent of those households are fully banked, and suggested that perhaps further exploration could be done to determine how it is that those with accounts have them and how they are utilizing those accounts.

During the ensuing discussion, Committee members offered a number of other suggestions for further areas of exploration, with Mr. McDonald suggesting that Census tracts be matched with other demographic data information; Mr. Boston suggesting that the survey include a question as to whether public benefits would be impacted by having a bank account; Mr. Eakes suggesting that perhaps the Committee could give some thought to regulatory restraints for banks in meeting the financial services needs of the underserved; Mr. Boston and Mr. Orozco suggesting a need to change some of the survey questions, with Mr. Orozco citing as an example the need to delve more deeply into variables that correlate to asset building capability as opposed to simply owning a bank account; Ms. Levere suggesting that, with the ability to look at who is banked and unbanked in specific communities, perhaps some direction could be provided to organizations on the ground, whether statewide or municipal, which could better answer some of the questions raised by Committee members; and Mr. Henderson suggesting it might be a good idea to set up a follow up conference call to allow members to advise staff on additional areas they would like to have addressed. In response to the many suggestions offered by Committee members, Mr. Ernst stated that the discussion had been helpful not only to FDIC staff in identifying areas for further analysis and research, but also to the larger research community about what research needs to be conducted with the rich and extensive data from the survey; and that staff would be available to Committee members interested in a follow up phone conversation .

Acting Chairman Gruenberg, noting that staff had been diligently taking notes on Committee member comments and suggestions, asked that staff write up their notes, summarize them, and circulate them for additional feedback for purposes of the Committee's next meeting, at which time the Committee could consider initiatives it might consider supporting as the result of the research and the Committee's discussion of the research results. He particularly pointed to the survey results indicating that the percentage of households without savings

accounts is triple the percentage without checking accounts and observed that a savings account initiative would be a natural follow on, as well as a complement to, the account-based debit card initiatives to be discussed during the afternoon session. He also indicated that, if Committee members were interested in a conference call for further discussion prior to the next meeting, staff would be happy to make the arrangements. He then announced that the meeting would recess for lunch. Accordingly, at 11:31 a.m., the meeting stood in recess.

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The meeting reconvened at 1:25 p.m. that same day, at which time Acting Chairman Gruenberg indicated that the next panel, with representatives from KeyBank and Citigroup and Mr. Cisneros, a leader in the Bank On movement, was a follow-up to the model safe transaction and savings account templates that the Committee had been instrumental in helping to develop. He advised that both Key Bank and Citigroup were prepared to offer transaction accounts consistent with the template and that Bank On was prepared to promote these types of model accounts. He then turned the meeting over to Ellen Lazar, Senior Advisor to the FDIC's Acting Chairman for Consumer Policy.

Ms. Lazar began by noting that the findings for the 2011 Household Survey discussed during the morning session confirmed the importance of continuing economic inclusion efforts to bring unbanked and underbanked consumers into the financial mainstream. She then introduced panelists David Bowen, Director, Key Community Bank Product Management and Specialty Programs, KeyBank, and Committee members Mr. Annibale and Mr. Cisneros.

Providing an overview of his presentation, Mr. Bowen stated KeyBank's approach to product development and management, its approach to meeting the needs of the underbanked and underserved, and recent development of the KeyBank Access Account, a product that directly serves the underbanked customer base. Regarding the bank's approach to product development, he reported that the bank is guided by what it refers to as its "fairness pyramid," with emphasis first and foremost on regulatory compliance, followed by product disclosures that are as clear and concise as possible, a formulaic approach that applies a blind standard to assessing or refunding fees, a market-based approach to pricing and industry standards to ensure product competitiveness, and, finally, emphasis on client choice and control across the entire product line to meet the full spectrum of client needs. Regarding the bank's approach to meeting the needs of underserved consumers, he advised that rather than applying an underbanked lens, check-the-box mentality to its products and services,

KeyBank instead incorporates a vein of the underserved into the fabric of its day-to-day, business as usual ("BAU") model, which helps to eliminate any stigma associated with special programs for the underserved; that such an approach more effectively leverages the mind share of the bank's sales force to offer the best fit for a client's current situation; that it creates a graduated process, allowing clients to enter the banking network through whichever product or service is most natural and providing an opportunity to cross sell other well-suited products with each transaction; and that, coupled with a financial education "wrapper" delivered through the bank's branches, the BAU approach is the best way to use the bank's relationship model to make progress in meeting the needs of the underserved.

Proceeding to a discussion of the KeyBank Access Account, Mr. Bowen reported that the account had been introduced in 2011; that it is a checkless checking account, with debit card access, online banking and bill pay, text and email alerts, and no fee for direct or ATM deposits although, in an effort to keep the account transactions as electronic as possible, there is a fee for over-the-counter deposits; that it is not subject to overdraft or nonsufficient fees because the account does not permit overdrafts; that it has a low monthly fee of \$5 that is waived if the accountholder has two or more transactions per month or makes deposits of \$200 or more; and that the accounts are offered at the bank's network of branches or through KeyBank's "Bank at Work" program. With respect to accounts opened through the "Bank at Work" program, he stated that they represent five to six percent of the institution's total sales, that they are an indicator of the appeal of such products to low wage workers, and that they represent a win-win situation for both employers and employees.

Mr. Annibale began by expressing thanks for the opportunity for Citibank to participate in the FDIC Model Safe Accounts pilot by offering a product based on the pilot's savings account template and noting that, as a result of its participation, the bank had learned a lot about the need to create a platform into which such products can be coherently integrated and then replicated to scale. He then advised that many attributes of the transaction account to be offered by Citibank were similar to those described by Mr. Bowen, including the checkless feature and no overdraft capability in addition to the attributes of any other Citibank account such as online access, bill pay, the ability to conduct business via ATMs or tellers, mobile payments, and built-in, client set alerts. Regarding the alert feature, he explained that accountholders can set a variety of text message or email alerts, including threshold balance alerts, end-of-day balance alerts, and/or transaction clearance alerts.

Mr. Annibale next noted that once you have a good product design, it becomes a question of how you get people to access the product. He explained that Citibank's footprint is concentrated in major urban centers where there is generally no shortage of large bank, regional bank, local bank, community bank, and credit union branches; that, even with the right product, there is a need to ensure that people know about it and have a feeling of trust for, comfort with, and connection to the institution offering the product; and that Citibank had learned through its model savings account initiative that the best way to establish trust and familiarity is to partner with organizations, such as non-profit organizations, other community organizations, and government agencies within the same footprint, and that the bank plans to repeat those partnerships for the transaction account, beginning in New York. He cited as among other lessons learned from participation in the pilot and the pilot findings the need to pair products with financial education and financial capability, the need for keeping product descriptions simple and easily comprehensible, structuring products in a manner that keeps costs low and helps consumers understand how to use an account in the most economical way, and the value of linked transaction and savings accounts to serve a number of needs, all of which Citibank hoped to incorporate into its transaction account. In conclusion, Mr. Annibale reiterated that Citibank hopes to build on the experience gained from its pilot savings account program in its new transaction account offering and to report back to the Committee on the new venture.

Mr. Cisneros then expressed his excitement at hearing the reports of the new safe transaction offerings by KeyBank and Citibank for the unbanked and low wage earners, noting that ensuring the availability of safe starter accounts had been the goal of the first Bank On program, launched in San Francisco in 2006. Providing a brief history of the Bank On San Francisco program, he advised that the program arose out of the city's desire to move its unbanked citizens away from expensive and oftentimes predatory check cashers and payday lenders and into the financial mainstream; that, in order to make certain that there were appropriate and safe alternatives to check cashers and payday lenders, the city convened a series of meetings with banks and credit unions and, after nine months of such meetings, 80 percent of San Francisco's banks and credit unions had agreed to the terms of the Bank On program; and that the account features agreed upon included low costs, no monthly minimum balances, a waiver of the overdraft fee for the account holder's first overdraft, account availability for anyone with identification considered valid under the USA Patriot Act, and account availability for those who were on ChexSystems for reasons other

than fraud. He noted, moreover, that the banks and credit unions made a commitment to community outreach, to financial education as part of the program, and to track the number of accounts opened through the program.

While expressing satisfaction that the City of San Francisco had been successful in launching its Bank On program, Mr. Cisneros indicated that that was only the first step, with the next concern being to ensure that customers understood, through financial education and community outreach efforts, the products, their costs and trade-offs, and that bank and credit union staff understood the characteristics and needs of the unbanked. Regarding the latter concern, he indicated that Bank On representatives actually worked with staffs of the financial institutions to train them on how they could better serve the unbanked and get them into the most appropriate products to meet their needs. In closing, Mr. Cisneros noted that despite persuading Bank On participants to change their practices and, sometimes, even their accounts, the city was never able to get anything close to the model safe accounts currently under discussion; that the Bank On program could now point to the model safe accounts templates identified by the FDIC and the safe transaction accounts being introduced by KeyBank and Citibank as real life examples in support of the idea that all insured depository institutions should be offering similar accounts; that it is important that the lowest income unbanked person has the opportunity to join the mainstream in getting their financial service needs met in the same way as everyone else; and that even those who have made financial mistakes in the past should be offered a second chance to earn their way back into good standing, with the model safe accounts providing the right approach to achieve that objective.

A discussion followed, during which Committee members asked and panelists responded to a number of questions. Mr. Beck, recalling that at the Committee's previous meeting in April, there had been discussion about the cost to financial institutions of \$200 to \$300 to provide a checking account, asked Messrs. Bowen and Annibale whether KeyBank and Citibank had discovered some creative way to deal with those costs in offering safe transaction accounts. In response, Mr. Bowen stated that the primary means of reducing costs was to encourage electronic transactions by charging a small, \$3 fee for teller transactions and that the bank's hypothesis, although it had yet to be proven, was that the lifetime value of many of the clients would be greater than what it is at the entry level. Mr. Annibale, in response, stated that Citibank also encourages electronic payments, but recognizes that the targeted population is primarily cash focused; that Citibank, therefore, seeks to

control costs by leveraging the bank's existing platforms, which through scale and efficiency, allows it to offer the safe transaction account at marginal additional cost; and that, in addition, the bank has been able to bring larger numbers of people on board in a more streamlined way through partnerships with employers. Ms. Levere then asked Messrs. Bowen and Annibale to address the financial education aspects of their respective transaction accounts, in response to which Mr. Bowen advised that KeyBank has had in place a financial education program for a number of years, that the bank has approximately 500 trained financial educators in its community bank network, that it also offers online financial education curricula and is exploring ways of incorporating the curricula into the bank's overall rewards program, but that there is no special financial education program associated with the bank's new safe transaction account; and Mr. Annibale advised that access to financial support, advice, and counseling is important to the success of programs to reach the unbanked and underbanked and that Citibank relies on its community partners to provide much of that support.

Mr. Eakes asked what had factored into the banks' decision to offer checkless transaction accounts rather than following the path of other large banks that have entered the prepaid card business, with its higher interchange fees. In answer, Mr. Annibale said that, while he could not speak to the motivation of institutions entering the prepaid card business, the prepaid model is different from the model used by Citibank to service most of its clients and that the bank's intent in offering the safe transaction account was to build a window through which unbanked and underbanked individuals could have access to the full banking platform, including access to savings, which the transaction account provides; and Mr. Bowen said that KeyBank simply does not have a prepaid system, that the bank had identified a client problem and the safe transaction account was a solution that worked, and that, from the client's perspective, the safe transaction account is essentially the same as a prepaid card. Mr. Cisneros added that, from the Bank On point of view, the mainstream population largely conducts its financial transactions with banks and credit unions and that, rather than focusing on any one individual account at any one moment in time, which prepaid card programs do, the focus should be on a lifetime of financial needs, transactions, and progress, a journey is best accomplished through more fully featured and diversified account offerings like the model safe accounts. Mr. Eakes also asked whether there was a financial argument that could be offered to the CEOs of other large banks to offer safe transaction accounts, in response to which both Mr. Bowen stated that, at this point, there is no compelling financial argument for or against such accounts and that, in his opinion, the decision to offer such

accounts is inherent in the values of an institution's leaders. In agreement, Mr. Annibale indicated that a commitment to serve the needs of the unbanked and underbanked flows from the top down.

Mr. Bowen and Mr. Annibale also fielded questions from Mr. Barr and Mr. Boston on whether their institutions had given thought to meeting the check cashing and credit needs of the unbanked and underbanked that are currently met by AFS providers. With respect to check cashing services, Mr. Bowen indicated that KeyBank offers such services for a fee of one percent of the face value of the check, with a minimum fee of \$3 and a maximum fee of \$25. With respect to credit products, Mr. Annibale advised that, although Citibank does not link credit products to the safe transaction account, accountholders are eligible to apply for an overdraft line of credit; and Mr. Bowen advised that, although KeyBank does not offer overdraft protection for the Key Access account, it has introduced a basic line of credit, ranging from \$250 to \$1,500, for an annual fee of \$25, that can be used as a standalone line of credit by Key Access accountholders, and that it is a subprime account carrying higher interest rates than would be offered to prime customers.

Committee members also offered several suggestions, with Mr. Boston suggesting that the bill pay capability available through both KeyBank's and Citibank's safe transaction accounts represents a significant marketing opportunity, inasmuch as bill pay can be linked to increased credit scores; with Mr. Henderson and Mr. Annibale suggesting that the Committee should explore ways of reinforcing the positive steps represented by the safe transaction accounts and of providing Community Reinvestment Act credit for banks offering such products; and with Mr. McDonald suggesting that the FDIC develop a scorecard to keep track of the number of institutions offering such programs; and with Mr. Eakes and Professor Fuchs suggesting that the FDIC explore certifying accounts that meet the standards of safe accounts. In response to Mr. McDonald's suggestion, Ms. Lazar stated that the FDIC has been looking at similar types of accounts offered by banks participating in the Alliances for Economic Inclusion and that she would discuss with staff ways in which the information might be captured on a broader scale.

Mr. Eakes offered his opinion that having two large banks such as KeyBank and Citibank offer safe transaction accounts based on the Committee's work was significant and cause for celebration. Mr. Henderson expressed agreement, noting that the safe transaction accounts offered by KeyBank and Citibank constitute a significant breakthrough in best practices with respect to accounts that conceivably meet a kind of moral

standard for organizations seeking to reach the underserved market.

Acting Chairman Gruenberg, after thanking panelists for their contribution, noted that two leading financial institutions and a major national organization providing an example for expanding the offering of model transaction accounts should be viewed as a beginning, not an end. He advised that, prior to the next Committee meeting, staff would give some thought on how best to carry forward the work on model safe accounts, taking into account the organizations identified by Mr. Henderson that might be useful in that regard.

Acting Chairman Gruenberg then announced that the meeting would briefly recess. Accordingly, at 2:27 p.m., the meeting stood in recess.

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The meeting reconvened at 2:29 p.m. that same day, at which time Mr. Pearce, acting as Chair of the meeting, reminded the Committee that among the issues discussed during the presentation of the 2011 Household Survey results were that one of the perceived advantages of AFS is convenience to consumers, and that one of the potential solutions to address the desire for convenience as it relates to the banking industry is to increase the availability of mobile technology to conduct banking related activities; that, at its meeting on April 26, 2012, the Committee had, in its wisdom, created a subcommittee to look at mobile technology; and that Professor Fuchs had agreed to chair the subcommittee, the members of which included Mr. Annibale, Mr. Cisneros, Ms. Levere, and Mr. Murphy. After noting that the subcommittee had been busy over the past few months, he turned the discussion of updates on the Subcommittee on Mobile Financial Services over to Professor Fuchs.

Professor Fuchs began by expressing that it was her pleasure to offer the report and work plan of the Subcommittee on Mobile Financial Services, and that it had been a pleasure to work with the other subcommittee members as well as FDIC staff members Luke H. Brown, Associate Director, Compliance Policy Branch, DCP, Jonathan Miller, Deputy Director, Policy and Research, DCP, and Mr. Ernst. She then advised that, prior to the meeting of the full Committee, the subcommittee had met and engaged in a very informative and engaging discussion, the results of which she felt would be helpful to the Committee as it considers the possibility of recommending to the FDIC opportunities for using the potential of mobile financial services technology as a tool to reach more unbanked and underbanked consumers. She then

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thanked everyone who had participated in the subcommittee's work and ceded the floor to Mr. Miller.

After thanking Professor Fuchs for her engagement and direction in the work of the subcommittee; Mr. Annibale, Mr. Cisneros, Ms. Levere, and Mr. Murphy for their input; and Mr. Ernst, Mr. Brown, and their staffs for helping to put the work plan together, Mr. Miller indicated that, at the end of the presentation of and discussion about the plan, the Committee would decide whether to move for its adoption and the subcommittee would begin the work to bring it to fruition. Then, by way of background, he recalled that mobile financial services had been a topic of discussion at several of the Committee's meetings and that, because of the level of smart phone penetration in populations that are disproportionately represented in the unbanked and underbanked communities, it made sense to look for ways to use mobile technology to create deeper and longer lasting relationships between insured depository institutions and the unbanked and underbanked and to encourage insured depository institutions to offer safe, affordable products to such consumers to bring them into the financial mainstream.

Next presenting the subcommittee's proposed work plan, Mr. Miller advised that it was comprised of several categories: research, financial education, mobile financial services partnerships, and development of a mobile financial services template, similar to the Model Safe Accounts template. In the area of research, he advised that the idea was to obtain baseline information, some of which may be based on original research and some of which may be an aggregation of existing data, identifying answers to such questions as which mobile financial products and services unbanked and underbanked consumers are currently using that could be adopted to meet the goal of economic inclusion; which mobile tools and services might unbanked and underbanked consumers find useful going forward; and whether current mobile banking and payment offerings, such as mobile text alerts, are effective and whether they can be designed in a way to change consumer behavior and yield better outcomes. In the area of financial education, he advised that the subcommittee was suggesting that the FDIC move forward with efforts to develop a mobile application for the MoneySmart curriculum as well as develop a MoneySmart module focused on mobile financial services technology. With respect to mobile financial services partnerships, Mr. Miller suggested that perhaps some of the theoretical ideas generated by the subcommittee's research could be tested in partnership with financial institutions, non-profit organizations, and other groups to determine whether, in practice, they are effective in motivating consumers and changing

their behavior. Finally, with respect to development of a mobile financial services template, he indicated that the idea would be to lay out the features of mobile financial products and services in an effort to identify best practices, with some possible features being check notification, actionable text alerts, and remote deposit capture, to provide consumers with accurate information in real time, provide access to tools to help unbanked and underbanked individuals overcome geographic barriers, increase access to cash and financial services in a timely manner, and enhance financial management capability. In closing, he noted that the potential of mobile technology to provide mainstream financial services to the unbanked and underbanked was an exciting prospect. Professor Fuchs added that, while the technology is indeed exciting, the subcommittee was mindful in its development of the work plan of the need to create safe practices for consumers. Mr. Miller then opened the floor to Committee member comments and questions.

Mr. Barr, after expressing his support for the work plan, offered two suggestions: first, that the subcommittee take advantage of work on mobile financial services being done at other regulatory agencies such as the Federal Reserve Banks; and second, that the subcommittee also get input from the younger, technology-oriented generation. In response, Mr. Miller, acknowledging that Mr. Barr's suggestions were good advice, advised that Jim Cunha, with the Federal Reserve Bank of Boston, had been intricately involved in the subcommittee's discussions; and Mr. Brown advised that FDIC interns had also been actively involved and had offered strong opinions, with many of their thoughts imbedded in the work plan.

Mr. Eakes suggested that the subcommittee take a look at a recently announced international remittance service to be offered by Boom Financial, working with the World Council of Credit Unions, which will allow users to send money across borders via text message, in response to which Mr. Miller thanked Mr. Eakes for the information and advised that the subcommittee would review the service.

Mr. McDonald, referencing the FDIC's hope to partner with an insured depository institution with regard to a mobile MoneySmart application, asked whether software vendors have the flexibility to utilize some of the modules in the MoneySmart program absent an act of Congress, in response to which Mr. Miller advised that the material is not copyrighted and is made available on the FDIC's web site, with the thought that it can be used by others as they deem appropriate.

Ms. Wright then moved for, and the Committee unanimously voted in favor of, adoption of the work plan of the Subcommittee on Mobile Financial Services.

Next, Mr. Pearce announced that at the next Committee meeting, scheduled for December 13, 2012, staff would be presenting the results of the FDIC's 2011 Survey of Banks' Efforts to Serve the Unbanked and Underbanked and, as earlier mentioned by Acting Chairman Gruenberg, updates on additional research on the data from the 2011 Household Survey.

There being no further business, the meeting was adjourned.

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

