

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
October 9, 2013 - 9:08 A.M.

The meeting of the FDIC Advisory Committee on Economic Inclusion ("ComE-IN" or "Committee") was called to order by Martin J. Gruenberg, 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; Ted Beck, President and Chief Executive Officer (CEO), National Endowment for Financial Education; Kelvin Boston, Executive Producer and Host of PBS' *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; Andrea Levere, President, Corporation for Enterprise Development, Washington, D.C.; 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; John W. Ryan, Executive Vice President, Conference of State Bank Supervisors; J. Michael Shepherd, President and CEO, Bank of the West and BancWest Corporation; Peter Tufano, Peter Moores Dean and Professor of Finance, Said

Business School, Oxford University and Founder and CEO of D2D Fund; and John C. Weicher, Director, Hudson Institute's Center for Housing and Financial Markets.

Michael Barr, Professor of Law, University of Michigan Law School; Wade Henderson, President and CEO, Leadership Conference on Civil Rights, and Counselor to the Leadership Conference on Civil Rights Education Fund, Wade Henderson, President and CEO, Leadership Conference on Civil Rights, and Counselor to the Leadership Conference on Civil Rights Education Fund, and Robert K. Steel, Deputy Mayor for Economic Development, The City of New York were absent from the meeting.

Members of the Corporation's Board of Directors present at the meeting were Martin J. Gruenberg, Chairman, Jeremiah O. Norton, Director (Appointive), and Richard Cordray, Director, Consumer Financial Protection Bureau. 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 James L. Anderson, Steven O. App, Michael W. Briggs, Susan Burhouse, Alexander S. Cheng, Karyen Chu, Carolyn D. Curran, Christine M. Davis, Patricia B. Devoti, Keith S. Ernst, Robert E. Feldman, Shannon N. Greco, Leneta G. Gregorie, Marianne Hatheway, Matthew Homer, Sally J. Kearney, Elizabeth A. Khalil, Alan W. Levy, Jonathan N. Miller, Robert W. Mooney, Elizabeth Ortiz, Cheh Kim, Yazmin E. Osaki, Mark E. Pearce, Sylvia H. Plunkett, Stephen A. Quick, Kristopher Rengert, Barbara A. Ryan, Luke W. Reynolds, Sherrie Rhine, Richard M. Schwartz, Kimberly Stock, and Lori Thompson.

William A. Rowe, III, Deputy to the Chief of Staff and Liaison to the FDIC, Office of the Comptroller of the Currency also was present at the meeting.

Chairman Gruenberg opened and presided at the meeting. He began by providing an overview of the meeting agenda, advising that the meeting would begin with a focus on the issue of financial education, particularly as it relates young people. He noted that youth financial education presents enormous challenges; that the FDIC's *Money Smart* program is one of the most widely used and influential programs designed to better prepare young people to deal with financial decisions they face almost immediately upon completion of their secondary education; and that the FDIC is in the process of developing a partnership

with the Consumer Financial Protection Bureau ("CFPB" or "Bureau"), which has a statutory mandate in the area of youth financial education, with the partnership promising to be a fruitful area for cooperation. He next advised that the second panel would be a continuation of the Committee's discussion on the potential of mobile financial services to expand access to the banking system in response to a suggestion at the May 16, 2013, meeting that the FDIC develop more of a strategic focus to its efforts in that area; that the third panel would address household savings and what the FDIC might be able to contribute to efforts to enhance savings and asset accumulation among low- and moderate-income ("LMI") households; that the luncheon speaker would be Steven L. Antonakes, Deputy Director, CFPB; and that the afternoon sessions would involve panel presentations on two research projects currently underway at the FDIC, one on community access to bank branches and another on the impact of minority depository institutions ("MDIs") on communities.

Next, Chairman Gruenberg introduced the moderator of the first panel, Elizabeth Ortiz, Deputy Director, FDIC Division of Depositor and Consumer Protection ("DCP"), welcoming her to the FDIC and noting that she had previously been the Chief Operating Officer of the Non-Profit Finance Fund, held senior positions in the New York City Department of Education, and worked for a number of years for Citigroup as a Vice President in its Global Consumer Group and Director of its Community Reinvestment Act ("CRA") and Fair Lending practice. He also stated that it was an honor to have Director Cordray available for the beginning of the meeting and asked him to say a few words. Director Cordray first remarked on the importance of economic inclusion and observed how notable it is to have an agency like the FDIC focused on the issue. He then advised that the CFPB has an Office of Financial Empowerment; that there is a core group of people who are not in the banking system and may well never be; and that, therefore, a dual approach, with the FDIC's focus on insured depository institutions and the CFPB's focus on non-bank entities, particularly on ways to introduce the same types of consumer protections and relationship advantages for alternative financial service ("AFS") products and services as exist for depository institution products and services, is a beneficial one. Finally, he expressed pleasure that one of the meeting panels would address the issue of financial education, an area in which the Bureau is trying to generate more visible activity and integrate the activities of other groups such as the Financial Literacy and Education Commission ("FLEC"), with the hope of persuading people that financial education is necessary not only

for the benefit of individuals and households, but for the country as well.

Then, Ms. Ortiz noted that it had been over two years since the Committee had discussed financial education as part of its formal agenda and that putting it back on the agenda was timely, particularly in light of the CFPB's April 2013 white paper on *Transforming the Financial Lives of a Generation of Young Americans*, a copy of which she advised was included in the meeting materials. She stated that although the Committee had not formally addressed financial education in recent meetings, the topic frequently arose in conversations related to linking the unbanked and underbanked to the financial mainstream, and that, while there was a broad range of perspectives on the topic, several themes had emerged. She identified those broad themes as a need for financial education to begin at early age, working with schools, teachers, and parents to bring financial education into the classroom as early as possible; a need to determine how best to promote effective and scalable education interventions for young people on a national level; and a need to be mindful of the benefits of continuing financial education, offering relevant content in a timely way at specific financial decision points. Reminding Committee members that the panel discussion was intended to explore ways in which the FDIC and others can help young people get a solid financial footing in life, she then introduced the panel members: Camille Busette, Assistant Director of the Office of Financial Education, CFPB; Laura Levine, President and CEO, Jump\$tart Coalition for Personal Financial Literacy ("Jump\$tart"); and Luke Reynolds, Chief, Outreach & Program Development, DCP.

Ms. Busette began her presentation by stating that youth financial education represents not only an incredible opportunity, but also an incredible challenge in the United States today - an opportunity because there is probably no better place to catch future users of financial services than in their early days in school, and a challenge because the product landscape is constantly evolving and because younger people, rather than entering the financial system through depository accounts at financial institutions, are instead entering the financial system via a range of alternative products. She indicated that, as a result, she wanted to broadly discuss some of the policy and practical challenges associated with trying to advance youth financial education and also share the CFPB's thoughts about, and recommendations for, how the issue might be addressed.

Regarding the current policy landscape, Ms. Busette indicated that schools typically are subject to local politics and local decision making, with hundreds of thousands of school districts nationwide and very active Parent-Teacher Associations, making it very challenging for federal agencies to intervene in an impactful way. She indicated, moreover, that changing curricula, increased demands on teachers, and dwindling resources to fill those demands represent yet another set of challenges. She advised that, despite the challenges, there also are opportunities within those challenges, which the CFPB has developed into policy recommendations for supporting youth financial capability. Prior to sharing those recommendations, though, she briefly listed the different types of activities on which the CFPB's Office of Financial Education focuses its financial literacy efforts, identifying them as outreach for partnership and outreach for impact, working with a variety of stakeholders throughout the financial education ecosystem to ensure that consumers are being reached directly; development of content for consumers on a variety of different topics, which is made available through brochures and online; research on effective financial education efforts, especially promising alternatives to conventional financial education programs, and appropriate ways to measure the success of those efforts; and identification of innovations for reaching consumers at the time they are making financial decisions and in a way that helps them successfully navigate those decisions. Expressing high hopes for the CFPB's financial literacy activities, she returned to her discussion of the Bureau's recommendations.

Ms. Busette noted that the CFPB's recommendations for supporting youth financial capability were developed by Bureau staff after having read numerous studies and having worked with and talked to a variety of individuals actively involved in financial education efforts, many of whom she advised were present at the meeting. She then explained that the CFPB recommends that financial education concepts should be introduced early, they should be continuous, and there should be a special emphasis on navigating the financial system and making important decisions at the junior and senior levels in high school; that personal financial management questions should be included in standardized tests, such as tests to measure common core standards, the SAT, and the ACT; that there should be opportunities for young people to have hands-on experience during their elementary and secondary education years so they can practice their skills as they are learning, thereby optimizing retention; that opportunities should be created for teachers to get the kind of training that will increase their confidence in

presenting financial education information and in managing their own finances; and that parents and other caretakers be engaged, through schools, libraries, and communities, in the financial education enterprise to enhance success. In conclusion, she stated that while the CFPB is a newcomer in the space, it is thrilled to work with a variety of federal partners to advance youth financial education.

Beginning her presentation, Ms. Levine provided background information on Jump\$tart, advising that it was founded in 1995; that it is coalition of 150 national partners from all sectors of government, including the FDIC, corporations, and non-profit organizations, with two of its Board members, Mr. Ryan and Mr. Beck, represented on the Committee; that it has 49 independent, affiliated state coalitions; that it is committed to advancing financial literacy for people of all ages, but with a special focus on pre-kindergarten to college-age youth; and that it is committed to working collaboratively. She stated that although Jump\$tart's focus when it was founded was on raising awareness about the need for financial literacy, its emerging priorities are promoting quality financial education standards and encouraging measurements of effective financial education; fostering collaboration between stakeholders and connecting stakeholders with reliable financial education resources; and providing training and support for financial educators. Elaborating on the promotion of standards, she indicated that Jump\$tart is the publisher of national standards in K-12 personal finance education, with the standards available to educators at no cost through the coalition's web site and in print through the FDIC; that the shift to common core state standards in mathematics and English language arts represents an opportunity to integrate money lessons into mathematics and language arts courses, a good place to start to reach younger students who may not be getting the hoped for standalone financial education courses; and that *Money As You Learn*, an initiative developed on the basis of recommendations by the President's Advisory Council on Financial Capability, provides tools to help educators integrate personal finance into common core subjects.

Next elaborating on the theme of collaboration, Ms. Levine advised that Jump\$tart operates the Jump\$tart clearinghouse, an online clearinghouse of financial education resources that was started in 1998 and is currently undergoing a technology upgrade of its search and sort functions as well as an upgrade of its listing criteria. She further advised that Jump\$tart sponsors a National Educator Conference, which takes place during the first weekend of November; provides teacher training on financial

education; promotes networking among financial education teachers; offers an opportunity to thank and encourage teachers for their efforts throughout the year; and provides a platform to showcase the expertise and resources of Jump\$tart coalition partners. She then elaborated on Jump\$tart's emphasis on training and support for financial educators, noting that the Jump\$tart Teacher Training Alliance ("Alliance"), formed in 2010, grew from an idea by Mr. Beck based on research sponsored by the National Endowment for Financial Education showing that teachers did not feel prepared to teach personal finance or to use their own state standards. She explained that rather than teaching financial educators how to teach, the Alliance approaches teachers as learners and instead provides them with an underlying knowledge of personal finance. She advised that the founding partners of the Alliance consisted of five non-profit organizations and three federal agencies, including the FDIC; that the Alliance was developed as a model that organizations across the country could use for their own teacher training events in an effort to promote consistency and a level of quality for teacher training; and that the hope was that the Alliance would set a standard for teacher training among those who teach personal finance.

Reiterating that it was not Jump\$tart's goal to itself conduct training, rather it was to help other organizations conduct teacher training more effectively using Jump\$tart's model, Ms. Levine informed Committee members that Jump\$tart had piloted its model for three years, and that research on the effectiveness of the model showed that teachers not only gained knowledge from the training events, but also retained the knowledge over six months and, more importantly, made changes in their own personal finance behavior, such as taking steps to check and improve their credit scores. She stated that, although the model is available as a toolkit at no cost, recipients do have to submit an application and stipulate to certain conditions such as conducting a minimum of 18 hours of training. In conclusion, she welcomed feedback from Committee members on Jump\$tart's initiatives.

Mr. Reynolds, setting the context for his remarks, underscored the importance of understanding what proponents of financial education are trying to accomplish and then identifying strategies and approaches that are particularly promising and effective. He suggested that, in general, financial education is used as a tool to help people build knowledge and skills to make informed judgments and take actions to effectively manage financial resources. He then pointed to reports by the

Government Accountability Office ("GAO") that highlight the challenges in conducting rigorous financial education program evaluations; that review the results of studies on financial education, some of which show it to be effective and others which question its effectiveness; and that conclude, based on current research that no one single approach, delivery mechanism, or technology constitutes what might be considered best practices. He stated, however, that there is some consensus on some key common elements, such as timely and relevant content, accessibility, cultural sensitivity, and an evaluation component, for successful financial education programs; that some research indicates that financial education that is conducted face-to-face is among the most promising; and that, more broadly, findings from the FDIC's longitudinal evaluation of *Money Smart* indicates that the program can be effective in helping consumers manage their finances, with sustainable changes in the months following training. With respect to young people, he advised that although several studies indicate that a financial education course in school may not translate into immediate knowledge gains as measured by a test, a study by Lewis Mandell, a financial economist, suggests that school-based financial education appears to have a long term impact on financial behavior, manifesting itself when students become adults; that some researchers suggest that teaching younger students with materials that are based on personal experience, which appeals to their emotions, may be an effective way to increase knowledge and alter behavior; and that youth based savings programs, in particular, are viewed as promising.

Turning to the FDIC's *Money Smart* program, Mr. Reynolds noted that it is one approach to financial education used by many organizations. He explained that *Money Smart* is a baseline tool focused on helping LMI consumers master basic financial skills and create positive banking relationships; and that the fundamental principles are the same for all curricula, but with age-specific modules for young adults, adults, and older adults, with a special small business curriculum as well as a coloring activity book for young people between the ages of five to eight. Observing that while program development is one piece of the puzzle, and outreach is an equally important component, he advised that the FDIC publishes a quarterly *Money Smart* newsletter that is sent to more than 40,000 subscribers; that it conducts Train-the-Trainers workshops to improve the capacity of instructors to use the curriculum; and that it has an alliance with more than 1,300 organizations that have entered an agreement with the FDIC to use the *Money Smart* curricula. He then identified some of the features of *Money Smart* that set it apart

from other financial education programs, including the ease with which the curriculum can be taught without any prior educational or banking experience; the ease with which it can be learned due to its being written at a sixth grade reading level; the absence of any copyright restrictions, allowing customization of the program; and its availability in nine languages.

Mr. Reynolds next discussed the FDIC's role in the *Money Smart* program, indicating that outreach efforts are focused on reaching intermediaries such as financial institutions, banks, and credit unions, non-profits, local governmental entities, and others with direct access to consumers; and that the FDIC encourages organizations to combine *Money Smart* training with access to federally insured deposit accounts and services by facilitating partnerships between non-profits that use the curriculum and bankers who can teach the curriculum and start the process of opening accounts. Regarding ways for banks to work with schools, he noted that in 2010 the FDIC had issued Financial Institution Letter 80-210 identifying various approaches, including serving as a subject matter resource for educators on personal finance or banking related topics; supporting delivery of financial education through after school programs; and facilitating support for in-school savings programs; and that many banks, as evidenced by the results of the FDIC's 2011 National Survey of Banks' Efforts to Serve the Unbanked and Underbanked, do in fact provide financial education and counseling in K-12 schools. With respect to in-school savings programs, he explained that FDIC regulations permit state nonmember banks to provide certain banking programs in schools without submitting a branch application, provided certain conditions are met. In conclusion, Mr. Reynolds advised Committee members that an assessment of the *Money Smart* program was in the works to determine what can be learned from its successes, what improvements can be made to put the program on a solid footing for the future, whether it would be useful to add a parent take-home guide to the young adult curriculum, and ways in which the program can support teachers after they receive fairly in-depth, comprehensive training.

During the discussion that followed, Committee members and panel members touched upon a number of topics, including the use of technology to advance financial education, possible incentives and certification for financial educators, parental involvement in financial education efforts, and financial institution support of financial education programs. On the issue of using technology to advance financial education, Ms. Levere, referencing the CFPB's recommendations, noted the absence of an

explicit policy recommendation related to technology, in response to which Ms. Busette stated that, despite the absence of an explicit technology-related recommendation, the assumption is that technology is probably the most important way for young people to engage with financial education as well as with financial institutions and other financial services providers, and that the challenge is to figure out how to marry online and mobile banking technology to school financial education programs in a responsible way to reach more youth. Although acknowledging its importance, Mr. Beck cautioned against an overreliance on technology as the sole answer to youth financial education and suggested that a combined emphasis on core knowledge, decision making skills, and use of technology would have great potential. Messrs. Annibale, McDonald, and Murphy were in agreement that, given the overwhelming amount of personal finance information available, the already existing distribution channel of financial institutions, and the need for bankers to be somewhat cautious in making referrals, it would be very helpful to banks if the FDIC or some other compositor could develop a central data repository to which banks could refer their clients and provide links on their web sites, in response to which Mr. Reynolds noted that, on the federal level, <http://www.mymoney.gov>, already provides a one-stop resource for federal financial education resources. Professor Tufano suggested that technology is not just a delivery mechanism for financial education; it also is a mechanism for researching various learning styles and for collecting metrics on, for example, what works and what does not and how long consumers will voluntarily remain on an educational web site as compared to attending a class. He also suggested that the trend toward Massive Online Open Courses ("MOOCs"), which could fundamentally change the face of education, also should be harnessed to teach financial education to consumers and personal finance educators. Ms. Levere cautioned that while MOOCs are great for certain segments of the population, there are certain segments that do not have access to or knowledge of MOOCs and, therefore, there is still a need to engage in heavy outreach to get people to use the products that are available. She also suggested the creation of a video game for purposes of youth financial education.

With respect to possible teacher incentives and certification, Ms. Levere asked whether there were any system-wide incentives that motivate teachers to become involved in financial education as opposed to the somewhat punitive approach of requiring it as a course standard, in response to which Ms. Levine observed that one of the highlights of the Alliance model is that teachers who participate in the training report making

positive changes in their own financial lives which, in and of itself, is a very powerful incentive. Mr. Annibale, noting the licensing requirements for various other financial advisers, suggested that some type of professional accreditation for personal finance educators would be an effective motivator, in response to which Ms. Levine indicated that, because of the local nature of education, a single nation-wide accreditation standard would likely pose challenges, although not necessarily insurmountable challenges, and that Jump\$tart's teacher training module does give guidance to providers for offering professional development credits or graduate credits; and Mr. Reynolds indicated that it might prove worthwhile to review the findings of a June 2011 GAO Report, entitled *Financial Literacy: A Federal Certification Process for Providers Would Pose Challenges*. Mr. Murphy suggested that rather than focusing on teacher certification within the context of State Education Associations, perhaps the focus should be on some designation of competency that would provide a level of comfort that the individual has a basic level of understanding of the information they are delivering, in response to which Mr. Reynolds suggested that it could be something akin to the certificate of completion provided to those who complete *Money Smart's* computer-based instruction module. Finally, Mr. Beck suggested that teacher training should be developed into a national initiative and that the Committee explore development of an ongoing resource for personal finance educators to network with their peers.

Committee members were unanimous on the importance of parental involvement in the financial education process, with Mr. Cisneros indicating that one of the more exciting aspects of San Francisco's Kindergarten to College savings program is the incorporation of parental involvement as a core element; with Ms. Busette agreeing that parents are integral to success with youth financial education programs, pointing to the CFPB's April 2013 parental engagement campaign as having generated a great response, and sharing the CFPB's intention of developing additional initiatives that revolve around reaching parents through various community organizations such as libraries and faith-based organizations; and with Mr. Boston noting the importance of also getting grandparents involved, particularly for certain segments of the population such as African Americans, where approximately 25 percent of children live with their grandparents. Ms. Levine also expressed agreement with the need for parental involvement and, although acknowledging that Jump\$tart had not undertaken a lot of work in the area, indicated that it had piloted one-day Family Financial Fitness Fairs where

a number of personal finance topics are presented that required children to be accompanied by at least one parent, with feedback from many of the parents indicating that, while they attended for the benefit of their children, they came away having learned more than they anticipated. She stated that, given the promising outcome of the pilot, Jump\$tart would like, at some point, to enlarge it to scale.

Regarding financial institution support of financial education programs, Mr. Annibale noted that Citibank offers accounts for both the Kindergarten to College savings program and the Knowledge is Power Program college savings program and advised that the bank's ability to connect access to education through its participation has been transformative. He suggested that it is important to give thought to how smaller and simpler platforms can be created to allow community banks, credit unions, and others to affordably complement the personal finance lessons offered by teachers. Mr. McDonald expressed his support for Jump\$tart's National Educator Conference and suggested that one way to increase financial institution participation in financial education would be to encourage each bank to sponsor one teacher's participation in the conference, which he suggested could be easily facilitated by enlisting the aid of the state associations of financial institutions.

Chairman Gruenberg commended panel members for facilitating an excellent discussion and advised that staff would return to the issue of youth financial education at the next Committee meeting with specific suggestions on how the FDIC, possibly in partnership with the CFPB, can effectively use its resources in this area. He noted that the FDIC had recently produced a series of videos to provide technical assistance to boards and management of small financial institutions, accessible on the FDIC's web site, and that it could certainly use that capability for teacher or parent financial education training. He also asked that Committee members share with staff any thoughts they have on engaging with and impacting schools and school systems.

Chairman Gruenberg then announced that the meeting would briefly recess. Accordingly, at 10:42 a.m., the meeting stood in recess.

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The meeting reconvened at 11:04 a.m. that same day, at which time Chairman Gruenberg introduced Jonathan N. Miller, Deputy

Director for Policy and Research, DCP, moderator for the panel discussion on a "Framework for Reaching the Underserved through Mobile Financial Services Future Work."

Mr. Miller recalled that over the past several meetings, the Committee had discussed the economic inclusion potential of mobile financial services ("MFS"); that at the Committee's May 16, 2013, meeting, staff had described its plans to undertake research on specific technologies; but that Chairman Gruenberg and Committee members had raised a number of questions about the direction of the research and suggested that the research would benefit from more strategic thought about the context and framework for the Committee's inquiry into the use of MFS. He stated that after subsequent conversations with Chairman Gruenberg, staff was asked to develop a white paper that would lay out just such a framework, with the specific goal of discussing the economic inclusion potential and opportunities that MFS presents to insured depository institutions in reaching out to the unbanked and underbanked, while also taking into consideration the challenges and risks of adopting MFS technology. He indicated that staff had developed the white paper and that Matthew Homer, Policy Analyst, DCP, and Yazmin Osaki, Senior Consumer Research Associate, DCP, would be presenting the outline of the paper, the content of which was expected to be completed in the first quarter of 2014, and asked that, upon conclusion of their presentations, Committee members provide their input and ideas about the direction and shape the work should take.

Mr. Homer then advised that he would discuss what staff hoped to accomplish with the white paper and the contribution it would make in the marketplace, after which Ms. Osaki would provide additional details about the specific analytic framework to be used for the paper. He noted that, despite the benefits of mainstream banking, many consumers remain unbanked and underbanked, and that the white paper would discuss three important challenges that must be overcome to expand economic inclusion: access to financial mainstream products, sustainability of banking relationships, and opportunities to grow financial capability and banking relationships. Briefly describing what MFS means for purposes of the paper, he stated that it referred to a set of technologies that can be used by consumers to access financial services using mobile devices at any time or place; that mobile commerce functions such as price comparisons and coupons would not be included within the scope of the paper, rather the focus would be on bank-sponsored MFS, with non-bank services included only to the extent that they can

provide useful lessons learned or examples for the banking sector; and that bank-sponsored MFS is intended to refer to specific services like mobile banking that allows consumers to check account information, transfer funds, get account balances or other alerts, and make payments or access personal financial management tools.

Next, Mr. Homer described the intended research approach, advising that staff would be conducting a literature review of existing industry reports, academic literature, news articles, and similar resources, and conducting conversations with stakeholders, including individuals from the banking sector, consumer groups, academia, and government and other sources. As for what the white paper would accomplish, he said that staff hoped to evaluate mobile financial services as a tool for economic inclusion, with particular attention to the potential of MFS to address the challenges of access, sustainability, and opportunity for growth; and hoped that the paper's contributions to the marketplace would include identification of ways in which MFS has the greatest potential, with emphasis on specific benefits arising from the factors of convenience, the high penetration of mobile phone use among underserved populations, and cost effectiveness for banks; consideration of any limitations of MFS, not only with respect to its effectiveness as a tool, but also any risks to financial institutions serving underserved consumers; identification of additional topics or areas that require further study; and the introduction of principles for optimizing MFS as a tool for economic inclusion, again with a focus on addressing the challenges of access, sustainability, and opportunity for growth. In closing, he indicated that staff anticipates that the audience for the white paper would be anyone interested in economic inclusion and that it will prove useful to bankers, technology vendors, consumer groups, and policymakers.

Next, Ms. Osaki reiterated that the white paper would evaluate MFS from an economic inclusion perspective, noting that although MFS is being rapidly implemented by depository institutions and adopted by consumers, it really is not clear that it is being done in a way that considers the potential of MFS to meet the needs of underserved consumers. She advised that, as previously mentioned by Mr. Homer, the framework is built on the three main economic inclusion challenges of access, sustainability, and growth. First addressing the challenge of access, which she described as simply bringing customers into the banking system, perhaps by making banking more appealing or by making the onboarding process easier or more efficient, Ms. Osaki

acknowledged that account opening via a mobile device is generally not currently available and indicated that the white paper would, therefore, research reasons for this and discuss ways in which mobile technology could improve account opening. Next addressing the challenge of sustainability, which Ms. Osaki described as simply keeping consumers in the banking system as opposed to transitioning in and out, she advised that the paper would look at whether and how mobile technology might be able to improve safety, transparency, and affordability; whether certain MFS features, such as mobile remote deposit capture with immediate funds available or person-to-person ("P2P") fund transfers would enhance the relevance of products to underserved consumers and allow them to meet their day-to-day financial needs in ways that reduces their reliance on AFS; whether actionable account management information provided by MFS, such as text alerts and push notifications, could help consumers avoid fees, prevent fraudulent activities, and increase chances for a longer-lasting relationship; and whether MFS reduces the costs to banks of serving the underserved, thereby increasing the feasibility of sustainable relationships from the industry perspective. Addressing the final challenge of growth, which she characterized as an opportunity for households to increase their financial capability and pursue their financial goals, Ms. Osaki advised that the white paper would examine whether tools that track expenses or perhaps monitor savings goals in real time would turn mobile consumers into full bank customers with an opportunity to learn about and access a full range of bank products and services. Noting that in some cases personal interaction can be vital to the success of underserved consumers' banking experiences, she indicated that the paper also would explore the potential downsides to more digital interaction and less face-to-face interaction.

In conclusion, Ms. Osaki pointed out that there are other issues, such as transaction security, that are fundamental to all banking services, not just those directed at underserved consumers and that such broader issues will certainly underlie the framework of the white paper. Regarding the timeline for the paper, she advised that staff had already begun the literature review and conversations with stakeholders, with plans to have the paper completed in early 2014. In furtherance of staff's outreach efforts, she asked that Committee members identify individuals in their respective organizations who would be good resources.

In the discussion that followed, Committee members offered a number of suggestions for the white paper. Mr. Annibale

suggested that, while its focus is on digital payments, staff might want to take a look at a report issued by the Bill & Melinda Gates Foundation, entitled *Fighting Poverty Profitably: Transforming the economics of payments to build sustainable, inclusive financial systems*. Observing that many emerging countries have been quite progressive in introducing regulations regarding mobile payments, he also suggested that staff look at the international perspective on the concept of materiality and the point at which it has been set as well as how one can differentiate account opening by limits. As an example, he pointed to Citibank's introduction of a mobile banking platform in Mexico, which was facilitated by the government's agreement to the concept of materiality, which has resulted in a half million new accounts for people who did not have bank accounts. He underscored the importance of a capping mechanism for those accounts depending on the level of Know Your Customer ("KYC") due diligence undertaken. Mr. Annibale also pointed out that those who get nervous about limited KYC due diligence should keep in mind that in a country like Mexico, where the majority of the population does not have a bank account and money is nevertheless moving every day, the central bank knew very little about where most of the cash is going in the absence of a mobile banking platform. He stated that at least the mobile banking platform produces massive amounts of information on the movement of small transactions, which the central bank and other regulators can access. Professor Tufano, agreeing with the potential for MFS to generate fantastic data, underscored the importance of developing rules and regulations in advance that will allow regulators to capture the data rather than having it buried inside a proprietary system. He also suggested that staff determine what lessons can be learned from mobile banking successes and failures outside the United States and that, perhaps, it would be useful to schedule presentations by representatives of Square and some of its competitors that have done interesting things to change mobile banking.

Professor Fuchs emphasized the importance, if it turns out that there are linkages, particularly with respect to sustainability and growth, of uncovering the value of MFS not only to unbanked and underbanked consumers, but to financial institutions as well. Mr. Shepherd, noting that there is a real competitive issue with respect to insured depository institutions and AFS providers, expressed agreement that there should be a focus on value, whether it relates to safety, reliability, or some other aspect of financial services. Mr. McDonald emphasized the need to look at the implications for community banks of regulatory oversight and policy and their associated costs, and

whether policies put in place for MFS products and services spur development of software by non-bank providers and how that affects the banking system and the movement of money. He also noted that Liberty Bank and Trust has implemented technology for online banking and lending in accordance with the best practices of the FDIC's Small Dollar Loan Pilot and would be happy to provide any related information staff needs. Mr. Ryan, also addressing the issue of non-bank provider challenges to control of the payment system by banks, recognized the tension between innovation and stability of the banking system and advised that the Conference of State Bank Supervisors was looking at the state and federal perspectives on the various touch points in the payment system and whether state or federal law should be applied, in response to which Mr. Miller indicated that, although obviously connected, the issue of non-bank challenges to control of the payment system is a broader one than economic inclusion and one that is squarely in front of the FDIC and being addressed in that broader context. Mr. Eakes suggested that the white paper include a section on potential regulatory barriers of bringing MFS to scale.

Next, Keith Ernst, Associate Director, Consumer Research, DCP, recalled that in recent Committee meetings, members had heard presentations from practitioners who have developed innovative efforts to support household savings as well as representatives of organizations that have more generally played a supportive role; that staff had taken some time to think through steps the FDIC could take to support efforts to bolster household savings, particularly in liquid, insured accounts; and that the point of the panel discussion on *FDIC Steps to Support Household Savings*, was to lay out steps the FDIC could take, to identify some of the challenges to success in bolstering household savings, and to get member input and feedback on the issue.

For purposes of framing the discussion, Mr. Ernst briefly reviewed statistics on household savings, reporting that, as shown by the *2011 FDIC National Survey of Unbanked and Underbanked Households* ("Household Survey"), 30 percent of households do not have access to a savings account at an insured depository institution; that, as shown by the Federal Reserve Board's 2012 analysis of the *2010 Survey of Consumer Finance*, just under 40 percent of families save regularly, with an additional 35 percent saving amounts "left over" at the end of the year; and that even among families earning \$15,000 to \$30,000 a year, regular savings habits result in very different outcomes and resource availability, with regular savers having over \$2,200

in liquid assets, irregular savers having \$1,300 in liquid assets, and those with no savings habits having less than \$250 in liquid assets. He further reported that, according to recent research by the FINRA Investor Education Foundation, two in five consumers self-report an inability to come up with \$2,000 in the event of an unexpected emergency; that, according to the *Survey of Consumer Finances*, families in the bottom three-fifths of the U.S. population have a median amount of \$1,500 across all of their checking, savings, and other transaction accounts; but that, also according to the *Survey of Consumer Finances*, families would like to have more resources available, with households in the lowest income quintile identifying a median desired savings of \$2,000, those in the second income quintile identifying a median desired savings of \$4,000, and those in the third income quintile identifying a median desired savings of \$5,000, which contrasted significantly with their respective actual median account holdings. Finally, with respect to the consequences of not having savings and other resources available, he advised that 2012 research by the Corporation for Enterprise Development indicates that 43 percent of Americans could not sustain poverty level spending for three months if they faced income disruption; and that previous research by the Urban Institute has shown that low income families in "liquid asset poverty" are more likely, 51 percent versus 28 percent, to face hardships such as paying bills on time or being able to purchase adequate food, upon a job loss.

Moving to proposals on challenges to household savings and how the FDIC could help address broader adoption of savings habits and engagement in the building of liquid assets, along with some of the challenges involved, Mr. Ernst first noted that, despite the recognition that low household savings is a very large problem and the existence of numerous organizations with considerable expertise engaged in ongoing efforts to address the problem, there are limits to intermediary expertise and capacity. He suggested that the FDIC might help to complement existing expertise and capacity by supporting efforts to convene national and regional conversations; clarifying technical obstacles, such as perceived obstacles arising from customer identification program requirements; and identifying and promoting promising practices on savings product development and marketing. He then noted that for consumers, savings is a difficult habit to sustain, particularly for households that have volatility in earnings and expenses, but suggested that there may be a role for the FDIC to develop branded materials, including mobile and internet capabilities, to motivate consumers, to clarify and simplify choices, to assist in developing a regular savings plan, and to help position consumers to have success in their savings

commitments. Next, he noted that it is sometimes difficult for potential for-profit partners to see the opportunities they may realize by promoting savings to households and suggested that there exists an opportunity for the FDIC to motivate partners by conducting research into the benefits that may flow to institutions that promote positive savings options to consumers; by conducting and highlighting research, by the FDIC and others, into the best practices around savings programs design and marketing; and by clearly and consistently speaking to institutions about opportunities to promote savings. Finally, he pointed to the challenge of raising awareness among civic and community leaders, which he suggested the FDIC could help to address by enhancing some of its current data collection efforts, as well as by developing a communications strategy to detail current savings rates and identify opportunities to encourage strong savings habits and the benefits of such habits. He then opened the floor to Committee member thoughts and comments.

During the ensuing discussion, Committee members offered a number of observations and suggestions, with Ms. Levere suggesting that it would be critical to think about what platforms are used to encourage savings behavior; how to build in savings defaults at every possible opportunity, beginning at an early age; how to align policy such that savings is incented in powerful ways; and how to formulate messages about savings in a way that is really informative and transforms people's perspectives. Mr. Weicher observed that when they first join the labor force, cars and checking accounts are the first assets obtained by most people, followed in five to 10 years by a house and a 401(k) account, none of which provides much in the way of flexibility to address emergency situations; and suggested, therefore, that there is a need to revive the idea of a traditional savings account. Professor Tufano, noting that behavioral scientists have long documented the impact of a lack of resources on decision making, recommended that staff review consider the findings of a book by Eldar Shafir and Sendhil Mullainathan entitled, *Scarcity: Why Having Too Little Means So Much*, which shows that scarcity of financial resources reduces the mental bandwidth available to address other needs and, therefore, contributes to poor decision making. Mr. Cisneros, noting that there is obviously exciting research ahead, suggested that its real value would come down to when the information is transmitted to the people who need to hear it, understand it, and act upon it, which relates to the issue of how the FDIC can get civic leaders involved. Pointing to the large contingent of Bank On cities, he cited the Bank On and similar programs as potential platforms for easily integrating messages on household savings.

Mr. Annibale observed that simply promoting savings in its own right is not convincing enough and suggested that savings needs to be tied to the issue of household vulnerability. He also suggested that in addressing liquid asset poverty, there is a need to find the right language so that it is inclusive of the wider percentage of the population that is vulnerable to a lack of savings, such as the elderly whose equity is trapped in their homes, without being offensive.

Mr. Orozco stated that he had several concerns, including the need to better identify the importance of savings as instrumental to asset building; the need to better identify the targeted consumer segments, including the elderly, people in the criminal justice system, young adults between the ages of 18 and 25, and rural populations, and to address their respective specific realities; and the need to identify ways to leverage daily transactional activity as entry points for asset building purposes. Mr. Boston observed that many of those in liquid asset poverty are the beneficiaries of federal, state, or other municipal assistance programs that include asset limitations among their eligibility criteria and suggested that, unless the policy implications of such restrictions are addressed, it will be difficult to have a major impact on a core group of consumers. Ms. Levere, noting that asset limitations differ at the federal level and from state to state level and that the Corporation for Enterprise Development has a wealth of information on the various limitations, offered to share whatever information staff may want on the topic. Rev. Dr. Flake suggested that, to the extent possible, it would be important for staff to also take into consideration the impact of fear and mistrust of financial institutions on efforts to save and on establishing banking relationships.

Chairman Gruenberg then announced that the meeting would recess for lunch. Accordingly, at 12:14 p.m., the meeting stood in recess.

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The meeting reconvened at 2:01 p.m. that same day, whereupon Chairman Gruenberg requested that Mr. Ernst introduce the presenters for the last panel of the day.

Mr. Ernst observed that the Committee has spent a great deal of time exploring the issue of access to banking relationships and indicated that the afternoon panel would delve into the fundamental relationship of institutions to consumers in terms of

branch locations and the constituencies institutions are reaching directly through those branches and through their lending activities. He then introduced panelists Karyen Chu, Chief, Consumer Research and Examination Analytics Section, DCP, and Kris Rengert, Senior Consumer Researcher, DCP, advising that Ms. Chu would discuss the impact on communities of MDIs and Mr. Rengert would present more fundamental information about the catchment area of bank branches. He cautioned that the presentations, particularly Mr. Rengert's, were not intended to provide final answers, but to provide staff's current thinking on the issues and to help the FDIC and the Committee transition into thinking about where there might be programmatic opportunities to address areas that have limited branch access.

Ms. Chu began her presentation by explaining that the FDIC has long recognized the importance of MDIs and has historically taken steps to preserve and encourage minority ownership of insured financial institutions; that the FDIC defines MDIs as federally insured depository institutions in which 51 percent or more of the voting stock is owned by minority individuals, or if a majority of the board of directors are minority individuals and the institution serves a predominantly minority community; and that the information she was about to present was being conducted in support of the FDIC's study of MDIs and community development financial institutions ("CDFIs") slated for release later in the year. She then reported that, in 2011, there were 185 MDIs, nearly 50 percent, or 92, of which were Asian/Pacific Islander MDIs, 42 of which were Hispanic White MDIs, and 30 of which were African American MDIs; and that the majority of MDIs are small in asset size, with, for example, 53 percent of African American MDIs in 2011 having less than \$100 million in assets, as compared to 35 percent of non-MDI community banks, and 100 percent of African American MDIs in 2011 having less than \$1 billion in assets.

Ms. Chu next explained that in order to examine MDIs' impact on communities, staff needed to identify the geographic communities served by each bank and that unfortunately, the FDIC does not have information on every bank's market area or even every bank's CRA assessment area because only larger institutions have to report their CRA assessment area information. She stated that, for purposes of the impact analysis, staff had adopted the novel approach of estimating a service area for each bank based on what she characterized as a "reasonable distance" for each metropolitan statistical area ("MSA") and state non-MSA area, which is the distance for a particular MSA that, if traveled by 90 percent of the people in that area, would result in access to

at least one bank branch, with the reasonable distance for New York being much shorter than the reasonable distance for Montana, and then defining a bank's service area as the geography that lies within the reasonable distance around each of its branches. Continuing, she advised that looking at the estimated service area of each bank, the data indicate that the estimated service areas of MDIs have higher shares of populations living in LMI census tracts. As an example, she reported that an extraordinarily high 70 percent of the population in the estimated service area for the median African American MDI lived in LMI tracts in 2011; and that the percentages also are higher for the median Asian/Pacific Islander and median Hispanic White MDIs, as compared to the median non-MDI, regardless of whether or not the non-MDI is a community bank, with only 24 percent of the population of the median non-MDI, non-community bank living in LMI census tracts.

Noting that access to bank branches is important to facilitating household access to major financial services, Ms. Chu advised that not only do MDIs tend to locate in communities in which more people live in LMI census tracts but, among institutions that reported Home Mortgage Disclosure Act ("HMDA") data, MDIs originated a greater share of their residential mortgages to borrowers who live in LMI census tracts, as compared to non-MDIs. As an example, she pointed out that, when looking at data for 2011, the median African American MDI made 52 percent of its residential mortgage loans to residents of LMI census tracts, the median Asian/Pacific Islander MDI made 25 percent of its loans to residents of LMI census tracts, and the median Hispanic White MDI made 17 percent of its loans to residents of LMI census tracts, as compared to nine percent for the median non-MDI, whether the non-MDI was a community bank or a non-community bank. She also advised that the HMDA data show that MDIs have been successful in their mission to serve minority communities, with all MDIs having originated a greater share of their residential mortgages to minority borrowers, compared with non-MDIs. As an example, she noted that African American MDIs reported for 2011 that almost 67 percent of the median share of mortgage loans were originated to African American borrowers; that, despite the fact that MDIs make a much larger share of their mortgages to minority borrowers, they generate very few residential mortgages, with the median African American MDI having originated a total of 14 mortgages in 2011; and that the share of mortgage loans originated by African American MDIs to African American borrowers was actually higher than the ratio of African Americans to the total population in their estimated service areas. In conclusion, she echoed Mr. Ernst's statement

that the results were very preliminary and represented a first cut examination of some of the trends and patterns for MDIs, and indicated that staff would welcome the Committee's feedback.

Mr. McDonald, based on his knowledge that Liberty Bank and Trust by itself originates approximately 600 mortgages a year and his familiarity with the rates at which other MDIs originate mortgages, questioned data that show that the median African American MDI originated only 14 mortgages in 2011. He highlighted the challenges for MDIs with respect to mortgage originations, including the difficulty of getting investors to buy their mortgages, the resulting higher prices and additional fees and overlays, and even then, the need to keep more of their loans on the books rather than selling them in the secondary mortgage market, and emphasized the importance of making certain that the data is correct. In this regard, he offered to work with staff, in response to which Ms. Chu noted that the data was based only on HMDA reporters; that small banks do not meet the reporting threshold; and that staff would nonetheless review the numbers and, perhaps, return to the Committee with a fuller explanation beyond just median measurements. Mr. McDonald also underscored the issue of non-MDIs taking in deposits, but not lending back to the community, and Mr. Murphy suggested that perhaps majority institutions can learn from the example of MDIs to generate more mortgage loan production in LMI areas.

The remainder of the discussion centered on concerns regarding the dwindling number of MDIs in particular and small community banks in general, as well as the many challenges facing those institutions. Mr. Eakes took note of the decrease in the number of African American MDIs from 45 in 2006 to 30 in 2011, the number of such institutions that are underperforming, and the lack of new African American MDI bank charters in sufficient numbers to compensate for those that have closed, in response to which Chairman Gruenberg stated that the FDIC, along with the other bank regulatory agencies, is subject to a statutory mandate to provide support and assistance to MDIs, and that, in furtherance of that mandate, the FDIC had appointed Robert W. Mooney as its National Director of Minority and Community Development Banking. Mr. Mooney added that each of the banking agencies have a program to provide technical assistance to MDIs; that the FDIC's program is very robust, with MDI Coordinators in each of eight regions to provide technical assistance in a variety of areas with the aim of improving overall performance; and that, among the assistance offered, are regional roundtables for the CEOs of MDIs to come together to make recommendations on program improvement. Mr. Boston expressed concerns regarding the

impact of the dwindling number of MDIs on business loans, in response to which Ms. Chu advised that the FDIC has looked at commercial and industrial lending and commercial real estate lending by MDIs and that MDIs do tend to make more of such loans as a greater share of their assets than mortgage loans, but that the FDIC's ability to determine which geographic areas are the locus of the loans is limited because of a reliance on commercial real estate data that is not reported by most MDIs due to their small asset size.

With respect to the challenges faced by small institutions generally and MDIs in particular, Mr. McDonald pointed to the challenge of toxic assets, the difficulty MDIs face in attracting investors to buy their mortgages, and having to keep more of their loans in-house rather than selling them on the secondary mortgage market, and suggested that perhaps the data being gathered by the FDIC could shed some light on the various issues related to mortgage lending in low census tract areas. Mr. Murphy suggested that perhaps larger institutions could learn from what the MDIs are doing in the mortgage arena with an eye toward more loan production in LMI areas. Mr. Eakes also underscored the difficulties of small institutions in diversifying their assets, making loans due to the low spread on idle funds, and developing the technology to engage in the mobile banking arena, and suggested that the answer to those challenges might lie in finding a technology partner that can help bring economies to the scale of electronic fund transfer networks and an ability for an institution, for a temporary period, to buy whole lines from another institution. In response, Mr. Mooney advised that in June 2013, the FDIC hosted an Interagency Minority Depository Institution and CDFI Bank Conference, with the intent of facilitating collaborations and working partnerships among MDIs, larger banks and non-banks, other institutions, and government agencies; that the conference had been particularly successful in facilitating collaborations and partnerships, with many new partnerships formed and announced as recently as the previous week at the National Bankers Association Conference; and that discussions had ranged from developing partnerships for the smaller MDIs to collaborate with each other to achieve economies of scale for back office operations, to reduce expenses, and improve overall net interest income, to partnering with each other to develop products and services that they might not be able to offer individually. He also pointed out that many MDIs, rather than looking for the highest profitability, are more focused on providing social services, an expectation shared by their investors and their customers; that their margins tend to be narrower than other institutions and,

with some success, they are seeking out partners that can assist with improving those margins; and that looking ahead, given that many of them serve the communities hardest hit by the financial crisis, it is very important for those institutions to not only improve their performance, but to seek new modes of survival. Finally, he noted that, when an MDI is projected to fail, the FDIC works very hard to find a merger partner that preserves the minority character of the area being served by the successor institution. Professor Fuchs and Ms. Levere suggested that staff take a look at communities served by MDIs that closed, perhaps including a map showing the locations of MDIs in 2006 and 2011, and at what has since happened in those communities as it relates to mortgage rates.

Mr. Ernst then expressed appreciation for the critical engagement by Committee members and the value of their comments in giving staff items for further thought and questions to address, and advised that staff would return to the Committee with additional information on the topic.

Then, Mr. Rengert provided a brief overview of his presentation, advising that he would first introduce the concept of communities with relatively low access to bank branches, operationalizing the concept to explain how staff identified those communities; that he would then provide a look at those communities in terms of the characteristics of the populations; and that, finally, he would discuss policy relevance and what the FDIC would do going forward to build on the initial research. Addressing the motivation for the research, he indicated that staff wanted to better understand the locations and characteristics of underserved households and to focus on examining communities with relatively low access to bank branches, one important channel among many through which households access financial services. He defined relatively low access as communities, or census tracts, that are farther from a bank branch than tracts in the bottom 10 percent of their metropolitan or state's non-metropolitan area, with distance measured from the center of the census tract to the nearest bank branch; identified the source of data used for the research as coming from the FDIC's Summary of Deposits database and the U.S. Census Bureau's *American Community Survey* data; explained "reasonable distance" as the distance at which 90 percent of the population for each metropolitan and state non-metropolitan area would reach at least one bank branch if they traveled that distance from their community, with the community being the center of the census tract; and pointed out that this definition of reasonable distance is different from that used by other

studies that designate a specified distance, regardless of the community. Noting that reasonable distance was calculated for each of the 300 metropolitan and each of the 50 state non-metropolitan areas in the country, Mr. Rengert reported that there were significant variations, with the reasonable distance for metropolitan areas ranging from a low of 0.6 miles for New York City to a high of 23.2 miles for Flagstaff, Arizona. Finally, he explained that low access census tracts were those with no bank branch inside the census tract and no bank branch within a reasonable distance of its center.

Next providing a look at low access communities, Mr. Rengert advised that computer analysis of the country's 72,000 census tracts revealed that just over 6,000 of them are low access tracts, with most of them, not surprisingly, being metropolitan; and that, interestingly, 7.5 percent of the total U.S. population lives in a low access tract, 7.5 percent of metropolitan populations live in a low access tract, and 7.3 percent of rural area populations live in a low access tract. He noted, however, that at the individual state level, there are significant variations, with the share of the population living within a low access tract statewide ranging from a high of 10 percent in South Carolina to a low of just over two percent in Nebraska; with the share of rural area populations living within a low access tract ranging from a high of just over ten percent in Arizona to a low of under one percent in Nebraska; and with the share of metropolitan area populations living within a low access tract ranging from a high of 10.5 percent in West Virginia to a low of just under two percent in North Dakota. He shared with Committee members a series of maps showing the ratio of state populations living in low access tracts to the U.S. population living in low access tracts; the share of populations living in LMI tracts for both metropolitan and non-metropolitan areas; the minority share of populations in low access metropolitan and non-metropolitan tracts; the share of populations living in homes where English is not spoken well for both metropolitan and non-metropolitan tracts; and the share of the adult population with less than a high school degree for both metropolitan and non-metropolitan tracts. Highlighting a few of the larger patterns shown by the maps, he noted that a significantly lower share of the population in a huge region of the Midwest and the Plains live in low access tracts than the country as a whole, but that a significantly higher share of the population in the Southwest and Southeast live in low access tracts than the country as a whole; that low access metropolitan tracts tend to be relatively better off than low access non-metropolitan tracts, with lower minority share, a smaller share of the adult population with less than a high

school diploma, and less likelihood of being in low income areas; and that there is a dramatically different relationship between low access tracts and non-low access tracts in metropolitan areas versus non-metropolitan areas when looking at the variables of LMI tracts, minority share of the population, share of the population in homes where English is not spoken well by adults, and share of the adult population with less than a high school degree, with even stronger differences at individual state levels.

Summarizing the key takeaways from staff's initial research, Mr. Rengert advised that the broad diversity that is apparent when looking at state level patterns for low access and non-low access tracts is masked at the national level; that metropolitan and non-metropolitan tracts appear substantially different when compared to their non-low access tract counterparts; and that the initial research provides a foundation further examination to better understand the characteristics of low access tracts across the country. He identified as next steps a more sophisticated, multivariate analysis to pinpoint variables associated with low access tracts and develop a typology of low access tracts, with the goal of developing an understanding of different types of low access tracts in different types of locations, with different types of populations.

Next addressing the policy relevance of the research, Mr. Rengert stated that, ultimately, the research would aid understanding of the wide variety of very different communities with very different needs, and help influence policy decisions and inform efforts to improve the delivery of financial services to underserved communities. By way of example, he pointed out that some low access tracts are relatively affluent and it would be reasonable to conclude that the residents of such communities are suitably served by banks and other financial service providers, with such tracts including affluent exurban communities with limited commercial services overall and relatively affluent metropolitan communities with highly educated residents who are likely to use remote banking. On the other end of the spectrum, he pointed out that other low access tracts with lower-income and certain other kinds of populations are more likely to be negatively impacted by low access to bank branches, with such tracts including communities in rural or metropolitan areas with concentrations of lower income residents with low education levels and communities with concentrations of lower-income immigrant families. In conclusion, he suggested that, ultimately, understanding the different types of low access tracts should facilitate strategically targeted efforts to

support the provision of financial services to the underserved populations.

In the brief discussion that followed, Committee members asked for and received clarification on the calculation of reasonable distance, subsequent to which Mr. Eakes inquired whether staff's research could be used to make state comparisons, for example, between the bottom 10 percent of access in South Carolina and the bottom 10 percent of access in a wealthier state such as Connecticut. In response, Mr. Rengert indicated that the research only makes comparisons between one group of residents in a state to another group of residents in that same state, and Mr. Ernst indicated that the research framework presents challenges when it comes to contrasting the overall experiences in one state to the overall experiences in another state. Professor Tufano stated that it appeared that the research was based on an assumption that where someone lives is more relevant than where they work or where they transit, which is useful if the relevant point of interest is mortgage lending; and suggested that, for different points of interests, there exists a host of data, such as mobile phone records that show the actual real-time location of people, that would allow answers to slightly different questions. Mr. Ernst, in response, indicated that there is some publicly available, non-proprietary data on commuting patterns in the country and other kinds of data sets that were worth looking into and that might have some value to the research effort. In answer to a question by Mr. Ryan as to whether there is any overlay of the information on access to bank branches on the state-by-state data from the Household Survey, Mr. Ernst advised that staff was not yet at that point in its analysis, that staff needed to get more comfortable understanding the measurement of reasonable distance, but that it could be very interesting to take a look at it at some future point.

Chairman Gruenberg asked Mr. Murphy and Mr. Shepherd how important branch networks are for their respective institutions and whether they anticipated the level of importance would remain the same five years down the road. Mr. Murphy responded that KeyBank believes having a branch network is absolutely critical as a physical presence or an anchor to help customers and potential customers relate to the institution, but that the issues are how many branches are necessary, what they should look like, and how to more efficiently deliver products and services through multiple channels. Mr. Shepherd expressed agreement that Banc of the West needs branch representation, but advised that there may be fewer branches in some communities, although new branches may be opened in other communities; that the bank sees

value with its multi-channel delivery system in being present and interacting with customers in their preferred manner of conducting business; and that the uses customers make of branches has shifted from routine transactions to more sophisticated inquiries and problem solving, which impacts branch personnel training and other factors as the institution shifts its model to customer traffic patterns. Mr. Cisneros added that branch access is also important when it comes to competing for new customers and relationships.

Chairman Gruenberg then advised that staff would follow up with the Committee on the issues addressed in the morning panels of youth financial education, mobile financial services; and to report on the interest expressed by both money center and large regional institutions in offering transaction accounts consistent with the FDIC's Model Safe Accounts template. He observed that the key issues on which the Committee has focused its attention, whether they be safe transaction accounts, savings accounts, small dollar loans, mobile financial services, or financial education, really are very connected and very much a part of the fabric of access to financial services; and that fitting the pieces together helps to create a broader picture of the challenges and how they relate to one another, and truly underline the value of the Committee's work. He again thanked Committee members for taking the time to participate.

There being no further business, the meeting was adjourned.

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

Minutes
of
The Meeting of the FDIC Advisory Committee on Economic Inclusion
of the
Federal Deposit Insurance Corporation
Held in the Board Room
Federal Deposit Insurance Corporation Building
Washington, D.C.
Open to Public Observation
October 9, 2013 - 9:08 A.M.

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

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