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

May 15, 2015 – 9:02 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;* JoséCisneros, 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 A.M.E. Cathedral of New York; 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, Washington, D.C.; Patricia A. McCoy, Liberty Mutual Professor of Law, Boston College Law School; Alden J. McDonald, Jr., President and CEO, Liberty Bank and Trust Company, New Orleans, Louisiana; Manuel Orozco, Senior Associate at the Inter-American Dialogue and Senior Researcher, Institute for the Study of International Migration, Georgetown University; Phillip L. Swagel, Professor in International Economic Policy, University of Maryland, Senior Fellow at the Milken Institute and a visiting scholar at the American Enterprise Institute; and John C. Weicher, Director, Hudson Institute's Center for Housing and Financial Markets.

Michael Barr, Professor of Law, University of Michigan Law School, Ester R. Fuchs, Professor, School of International and Public Affairs, Columbia University, Bruce D. Murphy, Executive Vice President and President, Community Development Banking, KeyBank National Association, John W. Ryan, Executive Vice President, Conference of State Bank Supervisors, and J. Michael Shepherd, Chairman and CEO, Bank of the West and BancWest Corporation, were absent from the meeting.

Members of the Corporation's Board of Directors present at the meeting were Martin J. Gruenberg, Chairman, Thomas M. Hoenig, Vice Chairman, and Jeremiah O. Norton, Director (Appointive). Roberta K. McInerney, Designated Federal Officer for the Committee and Deputy General Counsel, Consumer, Enforcement/Employment, Insurance and Legislation Branch, FDIC Legal Division, also was present at the meeting.

Corporation staff who attended the meeting included Willa M. Allen, Ruth R. Amberg, James A. Anderson, Michael W. Briggs, Luke H. Brown, Kim Chen, Alexander S. Cheng, Karyen Chu, Carolyn D. Curran, Christine M. Davis, Patricia B. Devoti, Dianne E. Dixon, Diane Ellis, Keith S. Ernst, Ralph E. Frable, Janet R. Gordon, Bobbie Gray, Barbara Hagenbaugh, Angelisa M. Harris, Alan W. Levy, Christopher Lucas, Jonathan N. Miller, Robert W. Mooney, Thomas E. Nixon, Janet V. Norcom, Jessica Nye, Elizabeth Ortiz, Richard Osterman, Mark E. Pearce, Sylvia H. Plunkett, Barbara A. Ryan, Luke W. Reynolds, Sherrie Rhine, Richard M. Schwartz, Patience R. Singleton, Kimberly Stock, Lori Thompson, Jeffrey Weinstein, Smith T. Williams, and Charles Yi.

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 thanking the participants for attending and providing a brief overview of the meeting agenda, advising that the first panel of the morning session would provide an overview of the new youth financial education resources developed by the FDIC, in partnership with the Consumer Financial Protection Bureau ("CFPB"), for teachers, parents, and caregivers to help teach children about managing money; and that the second panel would present an overview of the interesting projects the FDIC has underway relating to access to the banking system. He next indicated that the luncheon speaker would be Eric Belsky, Director of the Division of Consumer and Community Affairs for the Board of Governors of the Federal Reserve System; and that the afternoon session would discuss potential areas that have been identified for future work of the Committee. Chairman Gruenberg then introduced Elizabeth Ortiz, Deputy Director, Consumer and Community Affairs, Division of Depositor and Consumer Protection ("DCP"), moderator for the panel discussion on "Youth Financial Education and Capability."

Ms. Ortiz began by noting that the FDIC's commitment to financial education was comprehensive and longstanding; that the FDIC's Money Smart program includes educational resources in multiple languages for adults of all ages, as well as small businesses, that can be delivered in classrooms or at home via self-paced instruction; that high quality curricula delivered with capable and committed partners in the community are considered a critical first step toward economic inclusion and access to economic opportunities; that the Money Smart program has demonstrated that carefully designed and implemented financial education programs can help consumers understand the benefits of a bank account and enhance their ability to sustain a banking relationship; and that the collaboration between the FDIC and the CFPB on youth financial capability has been done within the context of the Financial Literacy and Education Commission ("FLEC"), which uses the diverse expertise of its 22 federal agency members to coordinate financial capability initiatives. Ms. Ortiz advised that, in addition to federal agency partnerships, the FDIC was in the process of continuing a much broader collaboration with national, state, and local organizations, with team members reaching out to schools and communities across the country as part of the FDIC's efforts to improve the ability of individuals reaching their financial goals; and that the Committee's guidance would assist in moving forward with the FDIC's youth initiatives, particularly with regard to how that work can be integrated with new or existing programs in education, workforce development, and municipal services.

Ms. Ortiz briefly updated the Committee on research by federal agencies focused on financial education, noting that the FLEC recently released two documents on building financial capabilities through hands-on learning that consolidates additional resources and research for initiating or supporting youth savings programs; that the FLEC partnered with the Journal of Consumer Affairs for the publication of ten new academic research papers on the topic of starting early for financial success; and that the CFPB's research, including its latest report on "financial well-being," has helped practitioners, funders, and researchers effectively use their resources to improve consumers' financial lives. Ms. Ortiz then advised that the first panel discussion would focus on the results of the collaboration between the FDIC and the CFPB to support youth financial capability; that Janneke Ratcliffe, Director, Office of Financial Education, CFPB, would discuss the youth financial education research underway at the CFPB; that Kenneth McDonnell, Financial Education Outreach Analyst, Office of Education, CFPB, would discuss the CFPB's and the FDIC's work to engage parents and other caregivers through the youth financial education learning process; that Luke W. Reynolds, Chief, Outreach and Program Development, DCP, FDIC, would discuss developments underway to further youth savings through interagency federal guidance and the FDIC's youth savings pilot; and that Bobbie Gray would discuss the FDIC's new Money Smart for Young People tool.

Ms. Ratcliffe began by noting that many young people encounter important financial decisions and financial milestones without the basic knowledge and skills they need to make sound choices; that the CFPB was committed to helping consumers increase their ability to make sound financial choices to meet their own life goals, with financial education as a critical part of its mission; and that the CFPB's strategy includes providing tools and information directly to the public, coordinating education initiatives through intermediaries, and researching effective approaches. She briefly discussed some of the CFPB's recent initiatives, noting that the CFPB developed a guide to connect policymakers with tools, information, and insights to enhance financial education efforts for school-aged children (grades K-12); that the CFPB worked with the Department of Labor to expand financial education into youth employment programs using the FDIC's Money Smart program; and that the CFPB provided librarians with resources, training, and tools for financial education to help them serve library patrons more effectively on dealing with financial affairs. She also discussed the CFPB's research efforts to define and measure "financial well-being" in terms that hold meaning for consumers, explaining that consumers generally defined "financial well-being" in terms of four elements: (1) feeling in control of their day-to-day and month-to-month finances; (2) being able to absorb a temporary financial shock; (3) having a sense that they are on track to meet financial goals; and (4) having the financial freedom to make the choices in their life. She also explained that the CFPB's research provided a framework for understanding factors that lead to financial well-being and how financial education can impact those factors, noting that socioeconomic circumstances and available opportunities are major factors in financial well-being; that an individual's behavior, which financial education can affect, interacts with opportunities to influence their financial well-being; and that behavior was influenced by several factors, including knowledge, skills, and certain traits and attitudes. Ms. Ratcliffe concluded by emphasizing that financial education can help individuals obtain and build the necessary skills to make sustainable choices that serve their life goals; and that the goal of the CFPB's partnership with the FDIC was to empower young people to make better financial decisions by providing their educators with financial education resources and helping their parents and caregivers build good financial behavior by incorporating hands-on learning.

Next, Mr. McDonnell discussed initiatives that the CFPB has been developing in partnership with the FDIC to: encourage parents and caregivers to build up their children's financial well-being; evaluate and select resources that parents and caregivers could use with their children; create an online destination for parents and caregivers; and promote financial well-being through social media, traditional media, and community outreach. He highlighted some of the research findings used as background information in developing the initiatives, noting that the Organisation for Economic Co-operation and Development's Programme for International Student Assessment ("PISA") study of students in 18 countries found that students in the United States need more skills before entering adulthood; that a CFPB study on navigating the market found that most financial information comes from the financial services industry rather than objective sources, with the industry spending \$1 on financial education for every \$25 they spend on marketing products; and that the CFPB focus groups with parents and caregivers across the country found that parents and caregivers were pressed for time, but often found opportunities to have conversations about money with their children when shopping, with the primary topics being spending, money management, saving, needs versus wants, resisting peer pressure, and advertising.

Noting that the CFPB's initiatives with the FDIC are focused on the concept of financial well-being, Mr. McDonnell explained that the CFPB's research indicates that, in addition to financial knowledge, there are other components of financial well-being, such as planning and problem solving, financial common sense, and decision-making skills; that these skills are developed during years in preschool (age 3-5), in middle school (age 6-13), and as adolescents/young adults (age 13+); that the building block for planning and problem solving was an executive function defined as having self-control, working memory, and flexible thinking that primarily develop in the preschool years; that the building block for financial common sense was a financial socialization that starts in the middle school years as children begin to experience advertising and peer pressure, and develop financial values and common sense; and that the building block for financial self-confidence develops in adolescence and early adulthood, when young people are likely to start earning their own money and making their own purchasing decisions. With respect to where and how these financial lessons are learned, he explained that parents and caregivers are the primary influence on their children during the very young, formative preschool years; that, as children enter school and develop a consciousness of community, other adults and teachers become a factor in addition to parents and caregivers; and that, during adolescence, young people begin to learn through their own experiences, in addition to learning at home, school, and within the community.

Noting that parents and caregivers have the most important influence on their children's financial future, Mr. McDonnell emphasized that parents and caregivers can help their children develop financial well-being by serving as good role models through their financial behavior and financial interactions with others. He concluded with a brief discussion of the CFPB's website created in conjunction with the FDIC, noting that it provides a variety of tools and resources that are categorized by age to help parents and caregivers develop their children's financial skills; that each of the categories has a hyperlink to access the FDIC's Money Smart program tools; and that the website has been promoted throughout social media messages, public service announcements, and other outreach efforts aimed at connecting parents and caregivers through a variety of channels to encourage them to discuss money and financial decisions with their children.

Mr. Reynolds then provided an update on the FDIC's youth financial education initiatives to prepare young people for financial success through education and opportunities to learn first-hand how bank accounts work. He reported that the FDIC Youth Savings Pilot Program was underway to identify and highlight promising approaches for offering financial education tied to the opening of safe, low-cost savings accounts to school-aged children; that the nine banks selected for Phase 1 of the pilot were working with schools or nonprofit organizations through the end of the 2015 school year to help students open savings accounts in conjunction with financial education programs; that banks have been invited to participate in Phase 2 of the pilot, which targets banks that are beginning new or expanding existing youth savings programs during the 2015-2016 school year; and that the pilot would culminate in Fall 2016 with a report on the lessons learned and promising practices. In response to potential legal and regulatory concerns raised by financial institutions and others participating in the youth savings programs, Mr. Reynolds noted that, in February 2015, the FDIC and other federal financial regulatory agencies jointly issued guidance to clarify existing guidelines in a manner that removes perceived regulatory barriers and encourages financial institutions to develop and implement programs to expand youth financial capabilities. Before turning the discussion over to Ms. Gray, he outlined recent improvements to the FDIC Money Smart programs, noting that the new FDIC Money Smart for Young People series offers four curriculums that cover pre-kindergarten through grade 12 and involve teachers, students, and parents and caregivers; that, in addition to the educator and student guides, the new Money Smart series offers parent and caregiver guides to highlight the key financial concepts within each lesson and provide resources to support parents in reinforcing and discussing those concepts; and that each of the curriculums includes multiple lessons that can be taught individually or together, provides ideas on how to integrate it into existing academic subjects, aligns with key educational standards, and provides real world examples and exercises.

Ms. Gray continued the discussion, explaining that the FDIC, in collaboration with the CFPB, created the Teacher Online Resource Center, which is a suite of online resources to help teachers tailor information about youth financial education topics in the classroom; that, in addition to the Money Smart for Young People series, the Teacher Online Resource Center website includes a series of videos, links to other government sponsored financial education websites to help develop lesson plans and assignments, and interactive online tools to help build a better understanding of financial products and services. She noted that the website also provides links to a series of FDIC Consumer News articles on becoming a smarter, safer user of financial services, as well as links to the CFPB's online resources related to paying for college, the federal government's MyMoney.gov website, and other resources for parents and caregivers, such as the FDIC's Money Smart for Young People guides. Following a viewing for the Committee of one of the videos available through the Teacher Online Resource Center, Ms. Gray concluded with a brief discussion of some of the efforts to promote these new resources to educators, noting that individualized support and training on the curriculum would be provided to a small group of educators through the 2015-2016 school year to gain insights and feedback to support future implementation plans; that membership-based organizations involving educators, such as teacher and school leadership organizations, were asked to share and promote these resources through their communication channels and networks; and that, in addition to continuing the existing relationship with the Jump$tart Coalition, the FDIC would be participating in educator-oriented conferences, particularly those in states with a financial education requirement and/or a high unbanked population.

In the discussion that followed, Committee members offered a number of comments and suggestions. Mr. Beck began by noting that collaboration and cooperation among organizations, such as the FDIC and the CFPB, and the focus on parents were both important to improving financial education resources; and that the focus on teacher training should continue as an important step to raise the core knowledge of teachers concerning financial education. Emphasizing that the CFPB's and the FDIC's research on these issues has been very useful, Mr. Cisneros suggested two areas for further research on providing financial education to young people: (1) whether it makes a difference if financial education is coupled with a bank account;

and (2) whether there is a difference between an "opt-in" versus an "opt-out" approach to opening bank accounts for young people. Noting that the Public Broadcasting Service ("PBS") has an adult-oriented literacy program called "Learn to Read" that has been nationally televised with funding from the Corporation for Public Broadcasting, Mr. Boston suggested that a similar PBS program on financial education may provide an opportunity to leverage the Money Smart program on a national basis. Mr. Reynolds responded, noting that research by the CFPB on the impact of school-based financial institution branches found positive outcomes. Mr. Ortiz also responded, stating that another part of the CFPB's research indicated a higher rate of participation in opening accounts in schools with populations of families that were recent arrivals to the U.S. and not all U.S. citizens; and that there may be other examples of programs involving an opt-out versus an opt-in approach.

In response to Mr. Boston asking about plans to reach out to parents and caregivers in minority communities, Mr. Reynolds stated that the FDIC Money Smart program was being promoted as a potentially CRA-qualified tool and resource with a natural fit for low- and moderate-income communities; that the parent and caregiver guides are being translated into Spanish; and that the FDIC was reaching out to large membership-based organizations, such as United Way, with strong relationships in communities to disseminate the guides and other tools into the neighborhoods that need them. Ms. Levere said that the joint guidance to financial institutions on implementing youth programs and the emphasis on engaging parents to teach their children about financial decisions were critical to reaching the goal of expanding the financial capability of young people; and that there are other institutions, such as social service agencies and affordable housing developers, that could be partners to support these financial education efforts. Noting that grades K-12 education may be provided through channels other than public schools, Ms. McCoy asked about the challenges and opportunities in providing financial education through private schools, charter schools, and home schooling. In response, Mr. McDonnell outlined some of the steps the agencies are taking to develop relationships with organizations in independent and charter schools, as well as organizations focused on home schooling.

Emphasizing that different economic groups present different challenges when implementing financial education information, Mr. McDonald suggested that, in addition to relying on parents as a resource for financial education of their children, it was important to pursue other channels for delivering financial literacy information; that it would be beneficial to have an implementation method with a matrix for measuring and tracking information to determine the success rate; and that, in addition to implementing financial literacy into state school systems, it was important to continue efforts toward a national level curriculum. In response, Ms. Ratcliffe noted that implementing a national mandate for financial education presents challenges, particularly since decision making with regard to education remains, for the most part, a state-based or local issue; that, in order to avoid duplicating what others are doing to advance school-based financial education in their states or local school districts, the CFPB decided to focus its efforts on providing policymakers and leaders with tools and resources that can be implemented in their communities; and that the CFPB has been collaborating with the Department of Education and other participants at the federal level. Mr. Orozco stressed the importance of developing a financial education curriculum with topics for specific groups, such as immigrants, who may have some basic financial issues to address before they consider opening a bank account. With respect to banks engaging with young customers, Mr. Ryan suggested that it would be helpful to identify the potential barriers and requirements in state laws to facilitate a discussion of the issues that need to be addressed to promote financial education. Noting that the interagency guidance was very helpful with respect to the encouragement it offered for financial institutions to create youth savings accounts, Mr. Annibale emphasized the benefits of universal programs and the opt-out concept to ensure that the most vulnerable children are included in any program. In closing, Mr. Flake suggested that potential opportunities for financial education not be limited to those within schools, but should be expanded to include other groups involving young people outside of the school system.

Chairman Gruenberg then announced that the meeting would briefly recess. Accordingly, at 10:40 a.m., the meeting stood in recess.

* * * * * * *

The meeting reconvened at 11:02 a.m. that same day, at which time Mr. Miller introduced the next discussion panel with Keith S. Ernst, Associate Director, Policy and Research Branch, DCP, FDIC, Karyen Chu, Chief, Consumer Research and Examination Analytics, DCP, FDIC, and Smith T. Williams, Acting Chief, Special Studies, Division of Insurance and Research, FDIC, to provide an update on the FDIC’s consumer research programs and a recent survey on small business lending by banks.

Mr. Ernst began with a brief summary of how the FDIC’s consumer research through its national survey of households has progressed over its three iterations, noting that the first survey, in 2009, developed a baseline for estimating and describing the unbanked and underbanked population in the U.S.; that, in 2011, the survey revised the definition of what was considered an underbanked consumer, focused more on the composition of consumer segments, and analyzed the dynamic nature of banking relationships in households; and that, in 2013, new questions were included in the survey regarding mobile financial services and prepaid cards as emerging markets. He advised that, in 2015, the survey would continue to preserve those core elements of the previous surveys regarding estimates of the unbanked and underbanked population and the use of mobile financial services; that some changes would be made to the 2015 survey to bring certain areas of consumers’ decisions into focus, such as consumers’ access to bank credit, savings behaviors of households, payment activities, and payment methods; and that the changes to the 2015 survey should offer some insight into the market potential for banks’ efforts to expand access to financial services in regional communities.

Next, Ms. Chu reported that, as a follow up to the past survey results and the FDIC's white paper on mobile financial services, the FDIC launched a qualitative research project to further explore the potential for mobile financial services to bring more unbanked and underbanked consumers into the financial mainstream and identify potential obstacles to achieving that objective. She noted that research would be conducted in two phases using focus groups with unbanked and underbanked consumers; that the first phase would explore the methods currently used by unbanked and underbanked consumers to conduct their financial transactions, including their preferences and concerns regarding mobile financial services; that the second phase would focus on how certain features of mobile financial services, such as, mobile alerts or person-to-person payments, were being used by underbanked and unbanked consumers to manage their accounts; and that the FDIC also would explore bankers' perspectives on the challenges and opportunities associated with increasing economic inclusion through mobile financial services offerings.

Ms. Chu then briefly discussed the FDIC's ongoing research to follow up on the 2008 and 2011 surveys of banks' efforts to serve the unbanked and underbanked, noting that a three-pronged approach would be used in this year's survey to gain a better understanding of these efforts. She explained that the first prong would involve the 2015 household survey, with consumers being asked whether they engage with banks for financial education and financial counseling, or to learn about products and services for managing their finances; that the second prong would be a new qualitative research project to identify and understand effective bank efforts to reach and engage unbanked and low- and moderate-income consumers; and that the third prong would be a new small business lending survey that includes questions concerning banks' basic account offerings and loans to small businesses. Ms. Williams provided additional detail on the FDIC's survey of small business lending, noting that small businesses play a vital role in the U.S. economy; that this new research initiative was being developed to provide data on banks' lending to small businesses, including information on the amount of small business lending, types of loan products being offered, underwriting policies, the role of small business lending in banks' business model, and types of quantifiable versus non-quantifiable information used in the loan review process; and that the survey would be conducted in 2016.

During the discussion that followed, Committee members offered a number of comments and suggestions, with Mr. Orozco commenting that the size of the firms considered to be small businesses in the survey was important because micro-enterprises with five or less employees were more likely to have problems with financial access than larger firms, particularly in immigrant communities. Mr. McDonald suggested that the survey include an update on the banks and entities that participated in the small dollar lending pilot to determine whether they are still offering the loan products and how new technologies may be providing incentives to participate; and that the FDIC should consider the ability of smaller financial institutions to compete against larger financial institutions and nonbank providers in marketing access to services. In response, Mr. Ernst noted that part of the FDIC's research on mobile financial services focuses on understanding the importance that consumers place on accessing these services through a bank versus a nonbank provider; and that, with respect to the small dollar lending pilot, the FDIC's follow up with the participants found that participating banks considered this product to be one that aided their relationship with the target consumers, and that they have continued to offer it. Mr. Swagel commented that it would be helpful if the survey could provide information on whether banks' interactions with the Small Business Administration was competitive or complementary, whether peer-to-peer lending was changing the competitive landscape, and whether there were particular issues with supervisors with respect to small business lending.

In response to Ms. McCoy asking if the 2015 household survey would include questions on credit cards and overdraft protection, Mr. Ernst stated that the survey would ask about access to credit cards and personal loans or lines of credit, but not about mortgage credit, student loans, or other forms of longer term credit. Noting that there was limited research on the increasing numbers of nonbank, online lenders lending at extraordinarily predatory rates, Ms. Levere asked if the survey of small business lending would ask about nonbank lending to small businesses. Ms. Williams responded by explaining that the survey was limited to the banks' lending, but would ask about their market competition and the product lines along which they compete. Noting that some alternative financial services, such as wire services, are becoming mainstream providers, Mr. Annibale suggested that the survey differentiate these alternative services from those that might be predatory in nature. Mr. Eakes commented that it would be helpful to have research that looks at the costs for community-based financial institutions when they are trying to provide services and compete with new technologies, particularly in view of the reduced number of community banks and branches. In response, Mr. Ernst emphasized that the purpose and goal of the FDIC's research was focused on understanding what services consumers are looking for in the marketplace, the choices they are making, and the extent to which banks or nonbank providers are providing those services. Chairman Gruenberg pointed out that, in addition to the work of the Committee, the FDIC has ongoing research on competing costs and other issues related to community banks and their important role in terms of access to the banking system, particularly rural areas and neighborhoods. Mr. Cisneros concluded the discussion by suggesting that it would be useful to gather additional information on the connection between direct deposit, or any form of electronic payment, and the impact that has on the unbanked and underbanked households' behaviors toward their use of bank accounts.

Chairman Gruenberg then announced that the meeting would recess for lunch. Accordingly, at 11:48 a.m., the meeting stood in recess.

* * * * * * *

The meeting reconvened at 1:22 p.m. that same day, whereupon Chairman Gruenberg introduced Mark E. Pearce, Director, DCP, FDIC, moderator for the afternoon session on potential areas identified for future work of the Committee.

Noting that he was joined on the panel by Mr. Ernst and Janet R. Gordon, Associate Director, Community Affairs, DCP, FDIC, Mr. Pearce opened the presentation by emphasizing that two underlying principles have guided the FDIC's work on promoting economic inclusion: (1) that the FDIC's mission to maintain public confidence in the financial system is enhanced by having insured financial institutions serve the financial needs of the broadest possible segment of the population; and (2) that a positive banking relationship is important to members of the public and to the insured financial institutions. He then outlined five key opportunities for directing the FDIC's efforts to promote economic inclusion: (1) financial capability; (2) insured accounts; (3) financial resilience; (4) mortgages; and (5) small business. With respect to the key opportunity of financial capability, he emphasized that financial education helps consumers to understand bank products and sustain a positive banking relationship over time; that a financial education curriculum has been developed over the past decade and made available through the FDIC Money Smart programs, providing a free, comprehensive curriculum from a trusted objective source that can be customized by different stakeholders as they implement it with their constituencies; and that it was important to continue to explore ways the curriculum be leveraged and utilized to its fullest extent through teachers delivering the curriculum, as well as through the bundling of financial education with other life events that present transition points, such as getting a job or buying a house.

Moving on to the opportunity of insured accounts, Mr. Pearce noted that access to a safe, affordable, and sustainable insured transaction and savings account improves the ability of individuals to manage their daily transaction needs safely to save money and build wealth; that the FDIC's efforts to implement a pilot program with safe transaction and savings accounts has resulted in the availability of accounts that are consistent with the Safe Account template and can serve the needs of low- and moderate-income populations; and that, in an effort to connect individuals to those accounts, it was important to explore opportunities within the FDIC's survey work to find other ways for insured financial institutions and other stakeholders to develop successful strategies to target to particular segments of the population. He continued, explaining that the third key opportunity of financial resilience was focused on developing the ability to absorb a financial shock; that, without an adequate savings cushion or access to a responsible small dollar credit option, households are vulnerable to unexpected emergency costs or income disruption; and that it was important to consider opportunities to encourage savings accumulation and access to affordable small dollar credit by looking at the best practices and successful strategies of financial institutions for delivering affordable savings accounts on a sustainable basis and employing alternative credit scores and other means to help individuals gain access to affordable small dollar credit. Turning to the fourth key opportunity of mortgages, Mr. Pearce explained that there have been significant changes in the mortgage market and the implementation of new regulatory requirements to address practices that had been present in the marketplace before the recent financial crisis; that home ownership remains a primary pathway for low- and moderate-income households to build wealth; and that it was important to ensure that financial institutions are aware of programs in the mortgage market and opportunities to take advantage of those programs to serve those markets. Finally, with respect to the fifth key opportunity of small business, he emphasized the importance of encouraging entrepreneurs to start small businesses by ensuring their access to credit; and that it was important to provide financial education to emerging entrepreneurs and ensure that financial institutions understand the availability of small business lending programs, as well as the pros and cons of innovations in small business markets and alternative small business financing.

Noting that a key component of the FDIC's approach to promoting economic inclusion has been focused on how these five key opportunities connect together to build an economic inclusion ladder, Mr. Pearce explained that the foundation of a good financial education provides an understanding of how to manage money and access an insured account, which then provides the opportunity to build savings, as well as to gain access to credit and a range of financial products and services over time. He concluded by briefly summarizing some of the areas of focus raised by Committee members as the most promising strategic opportunities for promoting economic inclusion, including: developing research to understand the barriers and challenges facing unbanked or underbanked households, the products and services they need, and the opportunities for insured financial institutions to meet those needs; gaining a greater understanding of emerging technologies and innovations, particularly how this changing technology landscape affects economic inclusion opportunities; serving as a trusted source for accessing a financial education curriculum and other resources; collaborating with other agencies to leverage financial education efforts and research; and reexamining the role of the Community Reinvestment Act in providing incentives for financial institutions to engage in economic inclusion activities.

In the discussion that followed, Committee members offered a number of comments and suggestions. Mr. Beck emphasized the importance of financial education efforts, noting that research also was a valuable asset; and that two areas to consider for additional research were cybersecurity and peer-to-peer lending. Mr. Boston suggested that the concept of the financial inclusion ladder should be connected to the concept of financial wellness; that the models used for credit scores should be reexamined and replaced with alternative models if they are found to be outdated; and that the decline in the number of minority banks should be studied because of the role they play in the marketplace. Mr. Pearce responded by advising that the FDIC has done some research related to our minority depository institutions program in an effort to those institutions in the marketplace; and that the FDIC has recognized the importance of financial wellness and people managing their money with positive behavior. With regard to financial resilience, Mr. Annibale suggested that understanding credit transactions and payment solutions was as important as encouraging safe and affordable savings since prepaid cards and other alternative payment products are essentially processed through the banking system, in essence. Commenting on the key opportunities that have been identified for future work, Mr. McDonald suggested that additional research on cybersecurity and emerging technologies would be beneficial, particularly since both of these areas can potentially have a significant impact on community banks.

Mr. Cisneros continued the discussion, suggesting that establishing partnerships with cities, communities, and local governments, as well as programs such as the Bank On and Bank On 2.0 programs, could provide opportunities for greater participation in safe accounts and safe credit offerings. In response, Ms. Gordon noted that the FDIC does collaborate with local government and community leaders to promote economic inclusion and the goal of connecting people to the mainstream with respect to both building savings and access to credit. Mr. Eakes suggested that it would be helpful to have more research data and transparency on financial institutions' costs to maintain checking accounts, both the marginal, average, and overhead costs; and that information security, emerging mobile banking technologies, and affordable mortgage credit were other research topics that should be considered by the Committee in its future work. With respect to financial capability, Ms. Levere emphasized the importance of building the financial capability of small business owners by marrying the products to the knowledge; and that more work could be done on the issue of credit scores, which serve as an important gateway to the mainstream economy and economic inclusion. Ms. McCoy suggested that the issue of mortgages be given a high priority on the research agenda, particularly to explore whether there are innovative underwriting methods to widen the credit box while keeping default rates down, and whether outdated credit scoring models are creating artificial barriers to broader access to credit.

Following additional comments on which opportunities to focus on in the future, Mr. Pearce concluded the discussion by emphasizing that these opportunities provide more of a framework than an absolute set of categories that would be pursued. He advised that the FDIC would solicit additional feedback from the Committee as it sorts through the specific opportunities raised in the discussion; and that some flexibility would be required to take into account that the challenges presented by opportunities in a particular category may change, or become less salient, over a multi-year time frame.

Chairman Gruenberg then observed that the discussion at today's meeting has been extremely helpful; that the Committee broadly endorsed the framework presented in the strategic planning discussion; and that the Committee members provided some helpful additions and suggestions. Chairman Gruenberg concluded by thanking the attendees for their participation.

There being no further business, the meeting was adjourned at 3:11 p.m.

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

May 15, 2015

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

May 15, 2015 - 9:02 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