

FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON ECONOMIC INCLUSION

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MEETING

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TUESDAY

OCTOBER 22, 2019

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The Advisory Committee convened at 8:45 a.m. in the Federal Deposit Insurance Corporation Board Room, 550 17th Street, N.W., Room 6010, Washington, D.C., Jelena McWilliams, Chairman, FDIC, presiding.

PRESENT:

JELENA MCWILLIAMS, Chairman, FDIC Board of Directors

ROBERT ANNIBALE, Citi

JANIE BARRERA, LiftFund

RAPHAEL BOSTIC, Federal Reserve Bank of Atlanta

JOSE CISNEROS, City and County of San Francisco

MARTIN EAKES, Self-Help Credit Union

DON GRAVES, KeyBank

MARTIN J. GRUENBERG, FDIC Board of Directors

WADE HENDERSON, The Leadership Conference on Civil and Human Rights

MAURICE JONES, Local Initiatives Support Corporation (LISC)

ANDREA LEVERE, Prosperity Now

MARGARET LIBBY, MyPath

ALDEN J. MCDONALD, JR., Liberty Bank and Trust

JONATHAN MINTZ, Cities for Financial Empowerment Fund

PAM PATENAUDE, Habitat for Humanity

JOHN C. WEICHER, Hudson Institute

ALSO PRESENT:

**KANAV BHAGAT, Managing Director of Financial
Market Research, JPMorgan Chase Institute**

**LARIECE BROWN, Quantitative Analytics Director,
Freddie Mac**

KELLY COCHRAN, Deputy Director, FinRegLab

KATY DAVIS, Managing Director, ideas42

KEITH ERNST, Associate Director, FDIC DCP

**AMELIA ERWITT, Managing Director, Cities for
Financial Empowerment Fund**

**LINDSAY FERGUSON, Director of Strategic
Engagement for America Saves, Consumer
Federation of America**

RYAN GOODSTEIN, Senior Economist, FDIC DCP

JASON GROSS, CEO and Co-Founder, Petal

EMERSON HALL, Associate Director, FDIC DCP

JONATHAN MILLER, Deputy Director, FDIC DCP

**DANIEL NESTEL, Senior Director Government
Relations, FICO**

MARK PEARCE, Director, FDIC DCP

**LAUREN SAUNDERS, Associate Director, National
Consumer Law Center**

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1 P-R-O-C-E-E-D-I-N-G-S

2 8:50 a.m.

3 DIRECTOR GRUENBERG: Good morning,
4 everybody. Jelena got delayed this morning, so
5 she gave me the privilege of welcoming you all.

6 And a couple of things. We have a
7 number of new members to the committee that we
8 want to welcome, and I'm going to introduce them
9 in a moment, a number of members whose terms are
10 coming to an end. And I want to begin the
11 process of thanking them for their service on the
12 committee.

13 Let me just say at the outset that
14 this committee has now been around at the FDIC
15 for over ten years. It has started when Sheila
16 Bair was the chairman. It was continued while I
17 was the chairman. And now Jelena is continuing
18 it as chairman of the agency.

19 And it has proven to be an
20 extraordinarily valuable resource to the FDIC for
21 ideas and energy for addressing an issue that is
22 really core to the mission of the FDIC. We're

1 fundamentally about providing security to people
2 for their savings, preserving the public's
3 confidence in the banking system.

4 And so the mission of expanding access
5 to the mainstream banking system is really a core
6 part of the mission of this agency. And this
7 committee has been really the driver of all their
8 thinking and work around that issue. So I wanted
9 to begin as a starting point for thanking you all
10 for your willingness to serve and to underscore
11 the value that from our standpoint you bring to
12 the FDIC.

13 If I may, let me now introduce the new
14 members of the committee who are joining. It's
15 an extraordinarily distinguished group. And in
16 alphabetical order, Raphael Bostic is the
17 president of the Federal Reserve Bank in Atlanta.
18 Raphael has dedicated his career to expanding
19 economic and housing opportunities for
20 underserved families. He previously served as
21 Assistant Secretary for policy development and
22 research at HUD and held a Chair in Governance

1 and Public Enterprise at the USC School of Public
2 Policy.

3 Don Graves holds the Bruce Murphy
4 chair on this committee. Don is the Director of
5 Corporate Responsibility at KeyBank. His
6 predecessor, of course, at KeyBank was Bruce
7 Murphy who was really a very valued member of
8 this committee, and I think we're extraordinarily
9 pleased that Don is able to continue the service
10 on this committee. He has extensive expertise in
11 small business and economic development in both
12 private and public sectors, previously served as
13 Deputy Assistant Treasury Secretary for Small
14 Business, Community Development and Housing
15 Policy.

16 Maurice Jones to my left is president
17 and CEO of the Local Initiatives Support
18 Corporation or as LISC is known. He comes to us
19 with a wealth of experience in federal and state
20 government, previously served as Deputy Secretary
21 of HUD and Secretary of Commerce for Virginia
22 among many other things.

1 Margaret Libby is the founder and CEO
2 of MyPath which uses strategies centered on the
3 workplace to bring young, low income workers into
4 the banking system and to encourage savings which
5 are really two core objectives of this committee.
6 So we're really pleased to welcome Margaret. And
7 she previously worked with the Youth Leadership
8 Institute and the California Reinvestment
9 Coalition.

10 Jonathan Mintz is not a stranger to
11 this committee. He is the founding president and
12 CEO of Cities for Financial Empowerment. He has
13 really led a national effort to expand access to
14 the banking system, to support and sustain local
15 Bank On coalitions, and has been a national
16 advocate for the expansion of safe transaction
17 accounts which is work that came out of this
18 committee I think is fair to say. And I would
19 note Jonathan was the longest serving
20 Commissioner of Consumer Affairs in the history
21 of New York City.

22 And finally, Pam Patenaude joins us

1 after recently serving as Deputy Secretary of
2 HUD. We have two former HUD Deputy Secretaries
3 and currently serves on the Board of Habitat for
4 Humanity and previously was president of the J.
5 Ronald Terwilliger Foundation for Housing
6 America's Families.

7 So this is a pretty good group, I have
8 to say.

9 (Laughter.)

10 DIRECTOR GRUENBERG: And we do have a
11 number of members whose term on the committee is
12 coming to a close. I wanted to acknowledge them.
13 Janie Barrera -- we really hate to say -- we like
14 to add. We hate to say goodbye. I have to say
15 that. Wade Henderson, Andrea Levere, John Ryan,
16 Phillip Swagel, and John Weicher. We thank you
17 for your service.

18 And I also want to acknowledge Ted
19 Beck, Kelvin Boston, Ester Fuchs, Pat McCoy,
20 Bruce Murphy, and Manuel Orozco whose terms ended
21 last year.

22 We can now actually move into the

1 business of this meeting, and I'll turn it over
2 to Jonathan Miller. And we are going to try
3 something different this morning for the first
4 time which is to give you all the opportunity for
5 five minutes or so apiece to share your thoughts
6 and what we ought to be thinking about.

7 Jonathan?

8 MR. MILLER: Thank you very much, Mr.
9 Chairman. So I just want to -- before starting,
10 I want to just remind everybody. In your packet,
11 you will see a sheet advertising our 2020
12 National Interagency Community Reinvestment
13 Conference next March in Colorado. We want to
14 make sure people get it on their calendars as
15 quickly as -- as soon as possible.

16 It's a terrific group of stakeholders.
17 It's sponsored by the three prudential
18 regulators, the FDIC, the Fed, and the OCC. And
19 it's a great meeting of folks for the purpose of
20 talking about national community reinvestment.

21 So I have -- I'm under strict orders
22 to keep you to five minutes. I have my iPhone

1 ready to tell me when that comes up. So I'll
2 just start, and we'll just go around the table.

3 Bob?

4 MEMBER ANNIBALE: Always the "A".

5 (Laughter.)

6 MEMBER ANNIBALE: My childhood
7 memories of being the first seat in the row of
8 every class. I hated it.

9 (Laughter.)

10 MEMBER ANNIBALE: Just -- well, thank
11 you first, again, to those leaving. It's been
12 wonderful working with you, and thank you for all
13 you've shared and we've learned. And for those
14 joining, I'm looking forward to getting to know
15 you better.

16 I think the additional expertise
17 coming on about housing is going to be very
18 helpful for some of us. So we'll look at that
19 intersection of particularly communities working
20 and the challenges of housing. Low income
21 communities and density of that often corresponds
22 to lack of access to many other services,

1 including financial.

2 I do want to just use this for a
3 moment to say there's something which we're more
4 formally going to announce. But -- and of
5 course, I always do these things. When it's all
6 public, I forget that we are streamed across the
7 hall and elsewhere.

8 That we're doing some very good work
9 with the City of New York, and Jonathan has been
10 very helpful and others in that on something
11 called EmpoweredNYC. And we've talked for a long
12 time about really the lack of access of financial
13 capability and coaching advice for people, the
14 complex lives of people, particularly with
15 disabilities, and those households with someone
16 with disabilities. Anybody navigating through
17 the benefits system, at least in this country,
18 it's a landmine for anybody who has a disability.

19 And we started with New York with the
20 Mayor's office for people with disabilities, and
21 Jonathan's success on the Commission for Consumer
22 Affairs, and a group of very knowledgeable people

1 to look at the absolute absence of support and
2 material. Also, the National Disabilities
3 Institute joined us for that which was very
4 helpful.

5 And as we look at that, we know that
6 something like 18 percent of people with
7 disabilities are unbanked. That's a big contrast
8 to what we see nationally and other levels which
9 have been improving. These levels actually
10 deteriorated further. And there are only 37
11 percent of people with disabilities who are
12 employed, 70 percent without disabilities are
13 employed. Half of those that are working have
14 \$25,000 a year.

15 And so we built a program in New York
16 to really develop deeper coaching and training of
17 financial counselors around the needs on the
18 lives of people with disabilities. And we'll
19 announce in a few days. But that will expand
20 nationally to at least a group, a crop of about
21 five cities to start with, New York, Boston,
22 Chicago, LA, San Francisco and we believe more.

1 And we're bringing together the
2 commissioners of people with disabilities from
3 those cities and to build out -- invest a couple
4 million dollars to really build out resources and
5 trained counselors, financial counselors for
6 those who are navigating the most complex lives.

7 So I really just wanted to share that.
8 And did I use my five minutes?

9 MR. MILLER: Almost.

10 MEMBER ANNIBALE: There you go. I
11 have two minutes left. Nothing more though that
12 will come up later to just say I hope that an
13 example of something we've also learned. We
14 opened up our ATM network as we spoke, I think I
15 mentioned before, to adopt a pilot for about 25
16 community banks and credit unions that are in our
17 footprint.

18 And that's pretty -- almost a half
19 million clients of those banks to basically give
20 them access to all cities. The ATMs that we own,
21 it's like 2,300 ATMs in the same footprint with
22 no charge. Because the out of charge fees are

1 continually going up, anybody who tries using
2 other bank's network which I disastrously did
3 here and realized it costs over four dollars to
4 do that.

5 The idea was to say, can small
6 community banks, credit unions access our ATMs
7 and their clients not pay an out of market fee or
8 out of network? And that's proved very
9 interesting, good.

10 Sixty percent use it for cash
11 withdrawals just out of curiosity. And the
12 average cash withdrawal is about \$204. And these
13 are, like, sometimes the Lower East Side Credit
14 Union. They're small groups.

15 And the other 40 percent are really
16 just trying to check their balances, and they do
17 it frequently. But they used to be afraid
18 they'll get charged to use someone else's
19 machine. So we really think there's an
20 opportunity because those who run big networks,
21 this is pretty de minimis. I mean, adding a half
22 million people in a way because the usage is

1 spread and timely.

2 But for anybody who works is using a
3 minority depository institution or a small credit
4 union. The cost for those institutions of
5 getting into a bigger network or to put in more
6 machines just doesn't make sense. So yeah, we
7 think it's a good experience. We wanted to share
8 it, and we're going to try to expand it.

9 MR. MILLER: Thank you. All right,
10 Janie, your five minutes.

11 MEMBER BARRERA: Thanks, Jonathan.
12 Well, it is a bittersweet moment being the last
13 meeting. And I'm happy that we got this five
14 minutes to be able to share some of the good work
15 that CDFIs and non-profits are doing across our
16 country.

17 So where other people see risk, we see
18 investments. And so some of that we have seen at
19 LiftFund. We're celebrating 25 years this year.
20 And what we do is that we work with folks that
21 are unbankable. We do micro and small business
22 lending.

1 The average credit score, FICO score,
2 one of our customers is 590. And we have a 96
3 percent repayment rate. So today during the
4 agenda to cease talking about underwriting, and I
5 could relate to the stuff that was sent to us for
6 reading because we do need to look at other
7 things besides credit scores to be able to make a
8 determination.

9 Having a 96 percent repayment rate
10 with that high risk of that credit score says
11 that, and we've proven it. We've dispersed over
12 \$300 million in the 25 years. Average loan size
13 is \$25,000. So we do know that access to capital
14 is so important for these small businesses that
15 aren't able to go to banks and credit unions to
16 be able to get these funds.

17 So we continue to experiment and pilot
18 things. And so some of that is actually with
19 some credit unions. There's a credit union,
20 Suncoast Credit Union, in Florida that we're
21 partnering with to see how we can say yes to
22 their members that they have to say no to. And

1 we're trying to figure out a way by them not
2 having to reapply for a loan.

3 Because right now in the banking
4 community, we're having -- a bank says no. And
5 then they have to reapply with us. And so what
6 we're trying to figure out and we hope by second
7 quarter of next year to accomplish this where in
8 their system -- in their regulatory system,
9 through NCUA and everyone else saying yes. Our
10 backroom operation at LiftFund is a part of that
11 regulatory box that is doable, so that the
12 application goes in to the credit union and then
13 it directly comes to LiftFund.

14 And so we're hoping -- I mean, that's
15 going to be a big change in our industry because
16 the pipeline of where do we find customers, how
17 do they find out about CDFIs and microlenders
18 like us. We'll be able to share that with a
19 bigger audience.

20 The other thing is that we are
21 creating through the NALCAB, National Association
22 of Community Asset Latino Builders, NALCAB, is

1 the fact that we are creating a national Latino
2 fund for small businesses. And hopefully we'll
3 be able to go public with that in the next couple
4 of weeks. There's a major bank that has given us
5 a ten million dollar grant to start this.

6 And what that is, the concept is there
7 are a lot of small CDFIs across the country. But
8 they're not able to reach scale because they
9 don't have the cash to be able to provide these
10 loans. So we create a national pool where we can
11 have that ten million dollar equity grant that's
12 come in and leverage it then to borrow more into
13 that fund. Then we'll be able to serve more
14 people.

15 So it's going to be a fund that does
16 not belong to LiftFund. We are going to be the
17 partner in it. We're going to be doing the
18 underwriting. It'll belong to a for-profit LLC
19 within NALCAB. So it's a brand-new concept that
20 we are so excited about creating. And hopefully
21 you'll hear about that in the next couple of
22 weeks.

1 The other thing about our work as well
2 is that technical assistance is so important.
3 We've learned over the years that it's not access
4 to capital but it's also the TA that small
5 business people need.

6 We recently did a study, 77 percent of
7 the small businesses that work with LiftFund are
8 still in business three years later. And as you
9 know, startup businesses go belly up within three
10 years. And so to have those kind of statistics
11 is proof to us that we're able to keep that
12 legacy of that small business for the next
13 generation.

14 So maybe you've heard me say before.
15 You can teach a person to fish. They eat for a
16 day. But what we're helping people do is buy the
17 pond where they're fishing.

18 (Laughter.)

19 MEMBER BARRERA: And we'll be able to
20 leave a legacy for the next generation. So
21 that's what we're attempting to do as well.

22 And then lastly I just wanted to share

1 because I know our chairwoman, Jelena, is an
2 advocate of de novo banks. And so I've been part
3 for the last three years helping in a small way
4 to start Piermont Bank. So it's located in New
5 York City. It is a woman owned, minority owned
6 bank. And it's been the first de novo bank in
7 New York in ten years.

8 And so we're excited. We opened up
9 doors July 1 and are ready for business. So if
10 you want to make a deposit at Piermont Bank,
11 we're located on Bryant Park. And it's a woman
12 owned, minority owned bank. So we're also
13 looking for investors from bigger banks to make
14 deposits --

15 (Laughter.)

16 MEMBER BARRERA: -- into our bank.
17 And we'd be happy to entertain any questions you
18 may have on that.

19 (Laughter.)

20 MR. MILLER: Thank you. Raphael?

21 MEMBER BOSTIC: Thank you. I wanted
22 to just first say good morning, everyone. And

1 it's really a pleasure to be here. I thank the
2 FDIC for the invitation to be a part of this
3 committee.

4 I'm thinking about challenges that
5 we're facing. It's been very interesting. Our
6 bank has just finished a strategic planning
7 process where two issues that we highlighted were
8 the challenge of economic mobility and resilience
9 and issues around innovation in financial
10 products.

11 And we settled on those things for a
12 couple of reasons. One is that the issue of
13 financial wellness, financial stability is
14 something that is critical for just families
15 living and for people making decisions that are
16 going to work and have longer term horizons.

17 So I've encountered issues around
18 financial literacy problems, financial
19 sophistication issues. And we've really been
20 grappling with the idea that the seeds of these
21 are sown very early in people's lives that too
22 often people who are children, minorities, and

1 women are not getting positive reinforcement.
2 This is something that they should be experts in
3 or could be experts in.

4 And so we're actually working to try
5 to provide some training and some curriculum for
6 fifth graders and eighth graders to try to change
7 that. And hopefully that will improve collective
8 financial sophistication and also get more people
9 in the pipeline so that our field looks more
10 diverse as we move forward.

11 I would also say that the fintech
12 space is something that is really active. And
13 we've been doing a lot of work to just try to
14 remind people or encourage innovators to think
15 about the ability of their innovations to change
16 people's access and increase people's access to
17 financial services and to the capital that can be
18 helpful.

19 I grew up in New Jersey. So the
20 Southeast is not a place that I knew very well.
21 And I spent a lot of time in the last two years
22 just traveling around and seeing places. And

1 there are a couple of themes that have emerged.
2 More generally, one is affordable housing is a
3 problem pretty much everywhere. The source of
4 that problem changes. So in some instances, it's
5 income. In some instances, there's not enough
6 housing. But it's something that we really must
7 face.

8 Second thing is access to capital
9 which is consistent in communities that are not
10 connected to workforce and to employment
11 networks. And so in that regard, we've been
12 thinking a lot about CRA reform, about how to
13 promote and engage with targeted and creative
14 investments and deployment of capital for small
15 businesses, for community-based amenities.

16 And really we've started to create
17 some relationships with foundations and others
18 just to point out to where there are
19 opportunities. Because in the South, we're
20 underinvested in these things. And we're on the
21 ground, so we are seeing things a bit
22 differently.

1 And then I would also say that I've
2 been really struck by the difference in the
3 challenges in urban places and rural places. And
4 I would hope that we spend some time just being
5 mindful to the special challenges that rural
6 places have. It's kind of hit me pretty hard.
7 You look at my map. Most of it is rural. Most
8 of it is struggling.

9 And so issues around this capital
10 access, workforce development, the strength of
11 institutions. And particular issues around
12 community banks, like smaller banks that are
13 often the pillars of these communities, they're
14 feeling particularly stressed. And without them,
15 I think many of these communities are going to
16 really have a hard time finding a future.

17 And then the last thing I would say is
18 we've been -- I've been for a long time thinking
19 about the cost of capital for lower income
20 families. And really thinking hard of how I can
21 get the banks in my district to be creative about
22 providing products that are real competitors for

1 check cashing operations where it's not charity
2 but it's also still cheaper than what they have
3 today.

4 And we're going to keep working on
5 that. There are some things that I think are
6 quite promising. So thank you. It's really good
7 to be here.

8 MEMBER CISNEROS: Thanks, Jonathan.
9 Good morning, everyone. Jose Cisneros, San
10 Francisco Treasurer. I'm happy to report that
11 our Office of Financial Empowerment in San
12 Francisco continues to deliver a number of
13 important programs from the longest running Bank
14 On, Bank On San Francisco program, that continues
15 to connect unbanked folks to safe accounts in our
16 city to a number of other programs.

17 Getting youth -- summer interns and
18 youth into bank accounts by the time they get
19 their first paycheck, financial coaching which
20 we're providing to folks to help improve their
21 credit scores and improve their financial
22 situation. A first of its kind children's

1 savings account program which we do in
2 partnership with CitiBank and our local public
3 school district.

4 And even a new program we're
5 developing with our San Francisco International
6 Airport private employers to try and develop a
7 workers fund to help low wage workers weather an
8 unexpected financial need.

9 But a couple of things I wanted to
10 bring to this committee that's come out of a lot
11 of that work are two important things that we've
12 seen and would love to have help addressing. One
13 is I just think an interesting thing that we need
14 to keep in mind and it's something we've seen
15 through our children's savings account program.

16 We opened our children's savings
17 account program as I mentioned in partnership
18 with CitiBank. And we've opened to date nearly
19 40,000 accounts that folks access by walking into
20 a local bank branch in our city to make deposits.
21 Quite a different opportunity of access compared
22 to the typical 529 college savings accounts which

1 are more remote and challenging to access.

2 What we found in our program which has
3 been very successful at getting low income
4 families to save is that fully half of the first
5 deposits that families make into their child
6 savings account, they make it by walking into a
7 bank branch and walking up to a teller window
8 oftentimes with cash. And fully one-third of all
9 the deposits made by all of the families, even
10 the repeat deposits, are still made by walking
11 into a bank branch.

12 I think the lesson we all need to talk
13 away from this is the incredibly important
14 reality that physical brick and mortar bank
15 branches and cash deposits deliver for low income
16 folks who are trying to safely and economically
17 access our banking system. We're going to look
18 to continue that and see how we can expand on
19 that going forward to give them even more
20 opportunities to saving cash.

21 The other thing we're noticing that I
22 also wanted to bring to the committee is through

1 our Bank On program, while we've significantly
2 reduced the population of unbanked folks in San
3 Francisco, we still find that there is a very
4 challenged population who are blocked from
5 opening up a bank account by negative banking
6 records, by the histories that the banks discover
7 in either check systems or early warning systems.

8 And we have a number of concerns about
9 this because, number one, these systems are very
10 difficult to access by the consumer. They're not
11 at all transparent. People don't know what it
12 says. When you compare it to the access that our
13 country has delivered around credit scores and
14 credit reports, here, it's quite the opposite.

15 There are two primary flags in that
16 system that restrict people from opening up
17 accounts. One is account abuse. The other is
18 suspected fraud. It's not at all clear that
19 these flags are accurate when they're showing up
20 in someone's record. And it becomes very
21 difficult for the consumer to, number one, find
22 out that they're there or, number two, correct

1 them if they're not correct.

2 We feel that it would be vitally
3 important to find out how we can work with this
4 and improve the access to these systems. And
5 then the other side of the coin is the financial
6 institutions are all over the board in terms of
7 how they utilize these records.

8 So we see very little consistency,
9 very little information about how the financial
10 institutions will rely or not rely on these
11 scores. And so the transparency is lacking there
12 as well. So I bring that to the committee, and
13 hope it's something we can talk about in the
14 future. Thanks.

15 MR. MILLER: Thanks. Very
16 interesting. Martin?

17 MEMBER EAKES: Good morning. My name
18 is Martin Eakes. I work with Self-Help Credit
19 Union and the Center for Responsible Lending. I
20 particularly want to thank you for inviting --
21 credit unions and banks don't always get along.
22 So I appreciate being admitted into the bank

1 bastion here.

2 My mother used to say that it's okay
3 to be opinionated so long as you're willing to
4 change your mind. So I forewarn you. She'd
5 given me permission.

6 Self-Help started 35-plus years ago.
7 Our belief was that if we could understand wealth
8 in families, we could make progress in the South
9 on issues of race. And that without
10 understanding wealth issues, we couldn't
11 understand race in the South.

12 So we discovered early on that one-
13 tenth of the wealth that white families hold were
14 held by black and Latino families. And our
15 solution for that was trying to figure out how do
16 we create and bring families of color to the
17 national average of homeownership.

18 And we started making loans early on.
19 I made \$100 million of loans to mostly black
20 single mothers, and my banker friends said you
21 can't possibly do this without losing your shirt.
22 My conclusion being pugnacious back then unlike

1 now was that, you guys know a lot more about
2 banking than I'll ever know.

3 DIRECTOR GRUENBERG: You've really
4 softened over the years, I have to say.

5 (Laughter.)

6 MEMBER EAKES: I know more about black
7 mothers than you'll ever know because I grew up
8 with them. So we started making home loans. And
9 in that first ten years, \$100 million in loans,
10 we had not a single penny of loss over the first
11 decade to families who had been unable to receive
12 a home loan from any other source.

13 We've continued to believe that and
14 despite a lot of the debate about what is the
15 role of homeownership, let me just give you a
16 couple of numbers that have confirmed. We've now
17 done between five and \$8 billion of home loans
18 and small business loans, particularly focused on
19 communities of color.

20 The wealth gap has actually gotten
21 worse for us. So my focus right now is I want to
22 keep this idea of wealth and families and

1 homeownership front and center. Even though when
2 we discovered that the wealth gap was ten to one,
3 30 years ago, I thought that was the most
4 ignominious fact in a great economy, that it was
5 just something that we couldn't tolerate.

6 It's actually gotten worse. In the
7 last 20 years, the actual in real dollars gap
8 between white and black families has gone from
9 \$100,000 to \$150,000, the gap in real dollars
10 after inflation.

11 So we're moving in the wrong
12 direction, but we also know what the answers are.
13 When we did 50,000 different home loans through
14 partner banks, we found that from 2005 to 2012,
15 which is a very weird period. Prices were at
16 their peak. In 2012, they had really reached a
17 trough.

18 The families that had become
19 homeowners during this program that we studied
20 over time increased their family wealth by
21 40,000, from zero to 40,000 over that time
22 period, which again is a really hostile

1 measurement period.

2 And the families that had identical
3 characteristics in every other way but remained a
4 renter at the end of that 2012 had \$200 of net
5 wealth. So homeownership is still a really
6 wonderful path into the middle class.

7 Most families do not have cash
8 reserves, both white, black, and Latino and
9 others. But for families of color, 50 percent
10 median has zero to \$200 of cash wealth in the
11 household which means you can't sustain very much
12 of a financial crisis and you can't have a down
13 payment to make a home loan. So if we don't
14 figure out how to enable homeownership with down
15 payment assistance, we will never close this
16 wealth gap.

17 The cash reserves are critical and
18 brings us to several of the areas of the FDIC
19 financial inclusion plan, the five different
20 components. Small dollar, I will say to you
21 small dollar is often the fig leaf for bad action
22 that payday lending, direct deposit loans. And

1 thank you to the FDIC for continuing its rule and
2 leadership and preventing payday lending directly
3 by bank depositories in the form of the, quote,
4 direct deposit advance, and then overdraft fees.

5 All three of these are essentially a
6 trapping mechanism. Payday loans, direct deposit
7 advance, and overdraft fees trap people and take
8 cash reserves out of the household. And my focus
9 is on bringing the black and Latino homeownership
10 rate to the national average. If we allow abuse
11 in this area, we'll never have down payment.
12 We'll never ever get there.

13 A final thing is that the FDIC has
14 been a leader through lots of different
15 chairmanships in not permitting bank charters to
16 be rented to companies that really are partnering
17 with them solely to use the preemptive effect of
18 a federal chart or a federal insurance to do bad
19 things.

20 Fintech, I've heard this. If I had a
21 nickel for every time I heard, we just need more
22 innovation in the financial services network.

1 Mostly, I heard that early on subprime mortgages.
2 I would be a rich man today just from hearing
3 that. And all I'm saying is that sometimes
4 innovation is really wonderful and we have to be
5 open to it. Oftentimes, quote, innovation is
6 simply a refuge for scoundrels.

7 (Laughter.)

8 MEMBER EAKES: So we have to actually
9 dig into the details and make sure that as this
10 committee we stay focused. I would say that I
11 really appreciate being invited with this
12 esteemed group. I know many of the people on
13 this panel are amazing. The folks in the
14 audience are equally esteemed. And the
15 professional staff at the FDIC are the best, bar
16 none.

17 MR. MILLER: If you'd like to keep
18 going.

19 MEMBER EAKES: So thank you very much.

20 (Laughter.)

21 MR. MILLER: Thank you, Martin.

22 MEMBER EAKES: That was a good one.

1 Thank you. That's all.

2 MR. MILLER: Don?

3 MEMBER GRAVES: Well, thank you all.

4 My thanks to the Chairman and to Marty for having
5 me. Don Graves from KeyBank. And while I am not
6 a black -- I'm a banker and not a black mother, I
7 did have a black mother. So hopefully I know a
8 little bit about what --

9 MEMBER EAKES: You are not who I was
10 talking about.

11 (Laughter.)

12 MEMBER GRAVES: Marty and I are
13 friends. I'll just say start with this to begin.
14 KeyBank's mission, our stated mission, it's on
15 our website. It's on all of our -- everything
16 that we put out is to help our clients and our
17 communities thrive.

18 And what we mean by that is that we're
19 all about trying to support people's hopes and
20 their dreams by providing them opportunities, and
21 this is the important part, to live a life of
22 dignity. And for too many people in this country

1 right now, they aren't living lives of dignity
2 because they may have hopes and dreams that have
3 not yet been quashed. But they don't have the
4 opportunity that leads them to that place of
5 living a life of dignity.

6 I think our commitment in this regard
7 shows through what we received last year which is
8 our ninth straight outstanding CRA rating. We
9 had an outstanding CRA rating every exam since
10 the inception of the Community Reinvestment Act.
11 So I don't know how many there are. I don't
12 think that there are more than on one handful
13 that have received that every single time.

14 What that actually -- how we do that,
15 some of you have heard this from Bruce Murphy in
16 times that he's been here before, the types of
17 products that we put out like our KeyBank Plus
18 Check Cashing product which is meant to directly
19 compete with the check cashers, a very, very low
20 fee, very easy to obtain, go to any of our
21 branches.

22 Our KeyBank Hassle-Free Checking

1 Account which is a Bank On certified account.
2 Our KeyBank Secured Card, our Key Cashback credit
3 card which is brand new, very, very accessible,
4 two percent cash back into the pockets of any
5 client as well as any card holder who's not a
6 client. You can also get one-half percent cash
7 back, no caps, no limits, no rotating categories,
8 no annual fee.

9 And the reason I say all of that is
10 because I think it's important that banks like
11 Key and Citi and others that are pushing the
12 envelope continue to offer these types of
13 products.

14 We have a handful of brand-new things
15 that we're trying thanks to many of the friends
16 here at the table. Our E-Z Up program which is
17 an innovative new tool that allows our clients to
18 automatically save money for the payment of
19 debts. For every debit card purchase or
20 transaction, a dollar is transferred into a
21 savings account. And that savings account is
22 then able to -- you're automatically able to then

1 send money through the E-Z Up program to pay down
2 the debt of your choice.

3 So what we found is that clients could
4 save more than \$300 each year using E-Z Up which
5 is a meaningful amount for low and very low
6 income clients. You could pay off a 30-year
7 mortgage, for instance, a year and a half faster
8 by using this. You could eliminate three car
9 payments on a five-year auto loan by doing that.
10 Or you could pay off a student loan one year
11 faster.

12 To Martin's point, zero dollar
13 overdraft protection option for our accounts
14 because we know that oversight happens. Even if
15 you're well intentioned, we know that things
16 happened to individuals over the course of a
17 month.

18 So we're offering a new no fee
19 overdraft protection for clients' checking
20 accounts linked to a KeyBank savings account. If
21 an overdraft occurs, if you're signed up for this
22 service, the available money in your savings

1 account goes to cover that overdraft so that you
2 don't end up having the overdraft fees and
3 there's no shortfalls.

4 All of that said, we know that there
5 continue to be major issues in communities.
6 Oftentimes, it's around financial literacy. And
7 it's less an issue of the -- it's more of a
8 nuanced issue around financial literacy.

9 Most people -- not everyone, but most
10 people understand the basics of how checking
11 accounts work and how the systems work. But it's
12 when you get into the more -- the deeper parts of
13 the financial services industry, the more complex
14 parts of the financial industry that people have
15 real challenges.

16 So we're particularly challenged in
17 terms of outreach around financial literacy I
18 think as a bank and as an industry to make sure
19 that people are getting that deeper level of
20 engagement, deeper level of understanding so that
21 it's not just, should I use a checking account,
22 or should I go to -- should I open a checking

1 account or should I go to a check casher.

2 It's, well, if I do go to a bank, I
3 don't know what I'm supposed to be doing. They
4 offer 25 different types of accounts. I'm
5 confused. I'd rather just go to the check casher
6 that I know.

7 It's also, as you know, expensive to
8 be poor. So applying a traditional fee structure
9 to accounts for the underbanked instills a deep
10 distrust. So once again, you end up sending
11 folks to the types of accounts that are not
12 particularly friendly to low and moderate income
13 individuals.

14 And then I'll touch on just quickly a
15 couple other issues before I finish. As my
16 friend, Raphael, mentioned, the rural issue is a
17 huge challenge for large institutions in
18 particular. And the Community Reinvestment Act
19 doesn't necessarily help us to achieve our goals
20 in reaching rural poor.

21 And then finally, issues around how we
22 provide credit and apply for it. Right now, the

1 challenge is access versus pricing and risk. And
2 for institutions like ours, trying to get that
3 balance correct is a problem. I suggest that we
4 consider a range of new options, perhaps a
5 public-private approach like an SBA guarantee.

6 Thank you.

7 MR. MILLER: Thank you. Wade?

8 MEMBER HENDERSON: Thanks, Jonathan.

9 Good morning, ladies and gentlemen. I'm Wade
10 Henderson. I represent the Leadership Conference
11 on Civil and Human Rights.

12 The Leadership Conference is the
13 nation's leading civil and human rights coalition
14 with over 200 national organizations working to
15 build an America as good as its ideals. This is
16 my last meeting as a member of this esteemed
17 committee, and I want to thank Chairman
18 McWilliams for continuing the important work of
19 this body.

20 I'm also grateful to Chairman
21 Gruenberg and Chairman Bair for beginning this
22 journey 12 years ago and for the foresight you

1 showed even before the onset of the financial
2 crisis and recognizing that the financial
3 industry would need to take a better, more
4 collaborative and cooperative approach in facing
5 the challenges in the financial industry and our
6 economy at large.

7 Now together the work of this
8 committee has been critical in making sense of
9 the constant changes we've witnessed in the past
10 12 years, from the foreclosure crisis to Dodd-
11 Frank and through the growth of fintech and new
12 banking services.

13 I really appreciate the willingness of
14 the FDIC to genuinely hear the voices of the
15 civil and human rights community and through the
16 dialogue and the understanding and the
17 relationships that you've engendered. You've
18 also made those of us in the Leadership
19 Conference community better advocates for the
20 people we serve.

21 Now on a personal note, I'm especially
22 grateful for the support you've all shown for

1 bringing communities of color into the banking
2 system and not just as consumers but also as
3 participants. I'm referring specifically to the
4 recent policy changes to promote Fair Chance
5 Hiring Section 19 policy reforms to make it
6 easier for banks to bring in employees who are
7 rebuilding their lives.

8 Now as our country continues to become
9 more diverse, it's important that the banking
10 industry look more like the communities they
11 serve. And along with the First Step Act, the
12 Section 19 reforms are an essential part of that.

13 Now as I step down, we welcome new
14 voices to the committee. I want to encourage you
15 all to keep up the incredibly good work you've
16 done. I believe that more can be done to advance
17 Fair Chance Hiring and that the FDIC and this
18 committee can help lead the way there.

19 Now second, and Chairman McWilliams
20 who is not here this morning but I wanted to
21 acknowledge it. It was great to recently meet
22 with her and my colleagues from the National

1 Community Reinvestment Coalition and other groups
2 to talk about it.

3 The FDIC has a critical role to play
4 in making sure that any reforms to the Community
5 Reinvestment Act, and one of our most important
6 but often misunderstood civil rights laws, truly
7 lives up to its name and works to bring more
8 people into the financial mainstream.

9 Now while we need the law to evolve,
10 we also need to be armed with the right data
11 before we commit to changes because the
12 consequences are too great for impacting the
13 racial wealth gap. And we really have only one
14 chance to get it right.

15 Now third, as this committee continues
16 to look at the evolution of banking and the
17 growth of fintech, I want to issue a cautionary
18 note about one particular growing threat to the
19 consumer protection laws.

20 I want to salute Martin Eakes for his
21 comment that there is an ongoing debate over what
22 we call a rent-a-bank practice where some lenders

1 are taking advantage of relationships with
2 federally regulated banks to do an end run around
3 state usury laws.

4 As states continue to fight the
5 scourge of payday lending and every state that
6 puts payday lending up to a vote has found
7 overwhelming opposition. We would do a
8 tremendous disservice to low income families if
9 we allowed payday-like products to gain new
10 footholds at the federal level.

11 Now fourth, we need the banking
12 industry and its regulators to do their part in
13 addressing the troubling racial gap in
14 homeownership. Homeownership is the primary
15 means that most families build wealth, and
16 housing is the biggest single expenditure that
17 families face every month. And yet black
18 homeownership today is as low as it was on the
19 day that President Johnson signed the Fair
20 Housing Act into law.

21 There are a lot of factors at work
22 here, including the lingering damage of the

1 foreclosure crisis and the role that local rules
2 play in reducing affordable housing supply. But
3 we need to make sure to do no harm in our housing
4 finance system.

5 And we need to provide a level playing
6 field for lenders to serve all communities and to
7 ensure that credit is as inclusive and as
8 sustainable as it can be. And I hope that
9 continues as a priority for this committee.

10 And finally, as this will certainly be
11 a priority for me moving forward, the biggest
12 financial threat that low income communities of
13 color and our economy faces moving forward is
14 student loan debt.

15 Now while most student lending is no
16 longer done within the banking system, I couldn't
17 agree more with Chairman Maxine Waters that we're
18 going to need the best efforts of the banks to
19 help respond to it because this is your consumer
20 base and this is the economy that you're working
21 to rebuild.

22 And I really want to salute the work

1 of the Center for Responsible Lending. Full
2 disclosure, I'm a founding board member.

3 (Laughter.)

4 MEMBER HENDERSON: The organization
5 has done an extraordinary job in focusing on the
6 challenges of students attending historically
7 black colleges and universities. And I hope that
8 in the work this committee does, there's also
9 emphasis on that.

10 And so while I say goodbye to this
11 committee, the Leadership Conference and our
12 partners are certainly not saying goodbye to the
13 work that you're all doing. And we're looking
14 forward to continuing these conversations moving
15 forward.

16 It's been an extraordinary honor for
17 me to serve with this committee for the past 12
18 years, and I appreciate your indulgence this
19 morning. Thank you.

20 DIRECTOR GRUENBERG: Thank you, Wade.

21 MR. MILLER: Maurice?

22 MEMBER JONES: Well, good morning.

1 And I too want to say thank you for letting me
2 join and learn from this group. I'm going to try
3 -- I'm going to say ditto to everything --

4 (Laughter.)

5 MEMBER JONES: -- that's been said
6 before. That's four minutes of my --

7 (Laughter.)

8 MEMBER JONES: And then add another
9 minute. I think with respect to the key -- I
10 think I'll use the word opportunities instead of
11 challenges facing the communities that we serve,
12 I'd articulate two or three.

13 One is helping members of the
14 community become prepared enough to take
15 advantage of this incredible jobs market that we
16 have in most places. And for the members of the
17 communities we serve, we found that you have to
18 do more than just workforce development to make
19 it happen.

20 And so a bundle of things for us that
21 include financial literacy coaching. If you look
22 in most of the communities we serve, most folks

1 have either a GED or a high school degree at
2 least. But when you test those members, their
3 literacy and numeracy skill sets are somewhere
4 between the sixth and the eighth grade.

5 And what we have to figure out is how
6 you can quickly at least get them to the tenth
7 grade in those areas so that we can help them at
8 a minimum to get on a pathway to a credential
9 that leads to mental skills type job that pays
10 livable wages and beyond and you can take off.
11 And that's doable.

12 It's doable largely we found by
13 working with community-based organizations that
14 can actually have access to these folks that have
15 been providing services and so have some street
16 credibility and trust and can actually help them
17 design a pathway. And so we spent a lot of time
18 investing in neighborhood-based or community-
19 based organizations that can do that kind of
20 work.

21 The second component of that
22 investment is case management around those things

1 that everybody needs to take care of in order to
2 be a productive and sustainable worker, housing,
3 transportation, child care, accessing the earned
4 income tax credit.

5 And then the third component is
6 actually the workforce piece. It's actually
7 helping people achieve the soft and the hard
8 skills that are relevant to the markets that they
9 live in.

10 So if you're in Jacksonville, the port
11 is still hiring. We're trying to get people
12 employed at the port. If you're in Boston,
13 biotechnology is still hiring folks for jobs all
14 along the economic spectrum. We can help people
15 get prepared to walk into those jobs, to compete
16 effectively for those jobs.

17 So a huge opportunity for the
18 communities that we serve is investing in folks
19 at the local level to help them compete for jobs
20 that pay livable wages. There's an incredible
21 amount of work to be done on that. We as a
22 country are missing an opportunity when we just

1 focus on the formal school system to do that.

2 This is a team sport that we can make
3 a difference in if we own it. And so we want to
4 get more partners involved in that.

5 A second piece for us does relate to
6 this wealth gap, but I want to come at it --
7 housing is definitely a huge piece of it, but
8 helping people own their businesses or start
9 businesses is another. And investing in small
10 businesses, we're finding as much demand for that
11 in the work that we do as the housing component.

12 And so we're trying to find more ways
13 to take more risk in investing, in particular, in
14 women-owned and minority-owned businesses. And
15 the work to be done there is tremendous. I mean,
16 just to give a -- we work a lot in Boston. And
17 this wealth gap in Boston is as great as I've
18 ever seen anywhere.

19 The Fed did a study a couple years ago
20 which showed that the net worth of a white family
21 in Boston was \$247,000. The net worth of a black
22 family in Boston is \$8. \$8, I mean, it's not even

1 -- it's not a race. It's not even close.

2 And what we're finding is housing is
3 clearly a component of that. But we also need to
4 find more ways to launch and to create more
5 entrepreneurs in the black community, period.

6 And so one of the things that we have
7 found as a route, if you will, is working with
8 anchor institutions to leverage their procurement
9 power to build businesses and to share and
10 mitigate risks jointly.

11 So an example, we have a partnership
12 with Northeastern whereby Northeastern is using
13 their procurement power to build businesses in
14 Roxbury and Dorchester and Mattapan. We're
15 investing in those businesses, both grants,
16 technical assistance, and loans.

17 They're providing us loan-loss reserve
18 so we can take more risk. And if we can get
19 these companies to the point where they got the
20 capacity to compete with confidence, they're
21 going to spend 15 percent of their spend there.

22 The last thing and this is probably an

1 odd thing to say in the FDIC world. But the work
2 of reconciling in communities or helping
3 communities to reconcile so that we can work
4 together across race, so that we can work
5 together across class, so that we can work
6 together across geographies. Whether it's North
7 and South Dallas, whether it's Mattapan and
8 Northern Boston, or whether it's San Francisco
9 and the South Bay.

10 That work is tough and it's work that
11 we're finding that if we're really going to make
12 a difference in people's lives, we have to
13 include that as well in our portfolio of tools.
14 And there's no -- it's more art than it is
15 science and has nothing to do with capital. It's
16 more about how you build a team across folks who
17 for a long time and continue today to live in
18 almost separate worlds in our country.

19 And so that piece too requires an all
20 hands on approach. Thank you.

21 MR. MILLER: Thank you. Andrea?

22 MEMBER LEVERE: So let me begin by

1 thanking Marty and my fellow committee members
2 for an extraordinary not quite 12 but 6 years.

3 And I want to really give a shout out
4 to the partnership we've had with the staff of
5 the FDIC, particularly the research staff whose
6 data we've been able to incorporate in the
7 Prosperity Now Scorecard and has been a basis for
8 really transformational conversations and the
9 ability of Prosperity Now to do two metrics this
10 year, not just looking at economic performance
11 but also ranking all the states by racial
12 disparities at the same time to see how
13 dramatically -- having just come from speaking at
14 the Boston Federal Reserve Bank on Friday that
15 contrast in that state is quite profound.

16 And I'm Andrea Levere. I'm now
17 President Emerita of Prosperity Now which is very
18 exciting for many reasons. Emerita, yeah. They
19 decided that there is a gender to Emeritus, the
20 board. So that's why they gave me Emerita.

21 So I want to talk about a couple of
22 things that are part of particularly the

1 innovation not for scoundrels over the last
2 several years as we've lost all the federal
3 programs to help match the savings of low income
4 people. And how do we look at expanding savings
5 and expanding savings in accounts that are safe?

6 And so the framework we've used is
7 savings for now, soon, and later. And we've
8 looked at that framework as a way of really
9 looking at where on the continuum people are,
10 really starting where people are in the
11 beginning. The framework we've used in our human
12 insights research is nothing about us without us.

13 And that really has informed how we've
14 done product design and development and how we've
15 done, I think, two fundamental things, identify
16 the platforms that are the platforms that people
17 use in their daily lives that can be leveraged on
18 behalf of getting people banked and saving. And
19 then being very innovative in cross sector
20 collaborations to leverage the strengths. In
21 many ways, your closing comment, how do we work
22 across many, many silos that used to exist?

1 So I just want to highlight four of
2 them, several of which have been already
3 identified around this table. Several years ago,
4 we took over the network of community tax prep
5 sites when there was just 200 of them. As of
6 this last tax season, we had 4,000 members of the
7 Taxpayer Opportunity Network who were all using
8 tax time to help people get banked, get
9 registered to vote, and to save.

10 And the innovation and the advocacy
11 network helped us, for the first time in 40
12 years, to authorize VITA and not only prevent it
13 from being cut in half but to virtually double
14 the amount of funding that we have for free tax
15 prep, which I still count as a pathetic amount of
16 money we provide to leverage billions for low
17 income households.

18 One of our key innovations that we've
19 worked on with Kathryn Edin is the Refund to
20 Rainy Day Savings Act which helps people when
21 they get their refund save 20 percent of it for
22 just six months which then prevents them from

1 doing the downward spiral into the payday lender,
2 keeps them cash flow positive, and helps them
3 move out of that tax year into a very different
4 situation that next year. We're working on that
5 with the District of Columbia, and we also have
6 federal legislation around this.

7 We've also then worked with private
8 sector partners on other forms of emergency
9 savings. We have been working with Treasury to
10 try to do something called the sidecar savings so
11 that when people were taking hardship withdrawals
12 out of their retirement savings, getting
13 penalized for that, and then not being able to
14 put it back to then link that to a Roth IRA so
15 they could build an emergency savings account
16 that was linked to their retirement. We are now
17 piloting that with Prudential with a goal of
18 really scaling that out.

19 Then back to our work which we've done
20 kind of really deep research on the role of
21 housing and the racial wealth divide. We have
22 been piloting with a number of CDFIs mortgage

1 reserve accounts is one of the things we see
2 happening is low income families often use all
3 their cash, all their savings as Martin said.
4 And they have very little emergency savings left
5 over.

6 So why can't we automate the creation
7 of an emergency savings account as they're paying
8 back their mortgage and build that? So we're
9 testing that with several of the leading CDFIs to
10 figure out what is the best way to structure it.
11 And particularly for different communities, what
12 would it look like differently?

13 The third real fourth cross sector
14 collaboration has been our work on health-wealth.
15 If we want to go where the money is, it is the
16 healthcare institutions as many of you have
17 spoken that have a huge incentive to invest in
18 addressing the upstream determinants of health.

19 And in my other committee on the Fed,
20 we raised this issue at our last meeting to
21 really look at the health-wealth connection and
22 look to see how we build that connection across

1 communities and build that partner in helping to
2 build short and long-term savings.

3 And then I will finish really speaking
4 about the work with children savings which Jose
5 and I have been tireless advocates for. We
6 reached a whole new level in our Campaign for
7 Every Kid's Future this year with over 700,000
8 accounts with children.

9 And when I was in Boston on Friday,
10 the treasurer's office announced that on January
11 1st, the Baby Steps Program where every child
12 born in Massachusetts is going to start with an
13 account as well.

14 And looking at how this field has
15 grown over time and as we talked about, how do we
16 integrate financial capability and financial
17 knowledge? Rafael, you were talking about that
18 for our hardest age group, middle school kids.
19 How do we have the actual experience of having an
20 account which then changes all the motivations
21 that they have to go forward? We're working on
22 this with baby bonds legislation as a way of

1 looking at this to really again help to address
2 the racial wealth gap from the very beginning.

3 The key issues that we think about is
4 how do we engage across all communities starting
5 with the data and then coming up with solutions
6 that they really see.

7 So Jonathan, I know you're going to
8 miss my low key, non-enthusiastic reactions when
9 we have great presentations and informative. And
10 let me just say, Marty, that the partnership and
11 the work you have done here at the FDIC and the
12 advocacy and the convening has been an absolutely
13 critical role in helping to expand the financial
14 well-being of this country.

15 And one final point, two of the women
16 are going off. That will leave only two women on
17 this committee. So please think of that as you
18 add new ones.

19 MR. MILLER: Thank you for all those
20 wise words. Margaret?

21 MEMBER LIBBY: Okay. So good morning,
22 everyone. My name is Margaret Libby. I'm the

1 founder and CEO of an organization called MyPath
2 based in San Francisco but working nationally.

3 Excuse me.

4 And I want to thank the FDIC for
5 inviting me to be part of this committee. I'm
6 excited to bring, I'm going to say, a youth
7 perspective. I'm, of course, not a young person
8 myself anymore. But we do work on behalf of
9 youth and young adults and really focus on
10 financial capability.

11 And the work that we've done has
12 really been about how to bring financial
13 capability into youth employment and youth
14 workforce settings to really make sure that when
15 somebody is 14 to 24 and they're having that
16 first employment experience that access to
17 banking and supports around saving and credit
18 building are in place so that that income, that
19 first income stream isn't just about income but
20 is really about wealth building and lasting
21 economic mobility.

22 And so I'll share. A lot of times

1 when we talk about the work, people don't
2 necessarily have a sense of what the barriers are
3 for low income youth of color in particular.
4 That's really who we focus on. People don't
5 often understand the barriers that young people
6 face and trying to access banking.

7 And so I'll just share a quick story
8 which is there was a young man who was one of our
9 participants who told a story that when he first
10 earned his paycheck, he was 16. He brought it to
11 the local Safeway to buy a sandwich. And the
12 cashier said, wait a second. This is a check. I
13 can't process this.

14 But actually, okay, you know, he was,
15 of course, embarrassed. And she said, don't
16 worry, sweetheart. Go across the street.
17 There's a check casher there. You can get the
18 cash and come back and buy the sandwich. Don't
19 worry about it. You're good.

20 And so I think when you think about
21 that kind of experience and that community kind
22 of and those messages that a lot of times like

1 the program wasn't able to provide the supports
2 and the adults in the community are using check
3 cashers, it's challenging for a young person to
4 get on a different financial path.

5 And so we know that half of young
6 people in San Francisco when we first started the
7 program were using check cashers for those
8 paychecks. And so as we innovated this approach
9 not as scoundrels but as innovators who were
10 working directly with young people to really
11 figure out how do we build a model that will
12 resonate with them, that will be relevant, that
13 they can engage with and really start saving.

14 We figured out how to do that. We
15 were seeing young people saving 30 percent of
16 those incomes even though they were also in a
17 position to need to really support their family,
18 economic circumstances and lives. We partnered
19 with Jose and the city to scale that up and then
20 later with Jonathan.

21 And so there's a number of cities now
22 across the country using this approach to really

1 bring the banking services into the programs.
2 And I think one of the challenges -- or I should
3 say into the employment programs. One of the
4 challenges that we continue to face is these
5 barriers that youth face in getting into
6 accounts. And so one of the things that we have
7 been recommending is to have -- especially for
8 15, 16, and 17 year olds who can't open an
9 account on their own without a parent, is to make
10 non-custodial accounts available.

11 And not just the -- we love the work
12 that the FDIC has done around the safe accounts
13 and the non-custodial savings accounts which has
14 been a really enormous step forward. And I think
15 what we would love to see is some focus around
16 how do we do the same thing with transactional
17 accounts or checking accounts, debit cards so
18 that young people have access to that when
19 they're under 18 and can own that account on
20 their own.

21 Because of a lot of young people, if
22 their parents are -- well, if they're foster

1 children, if their parents are undocumented or in
2 check systems, they're truly excluded from
3 opening an account. And if they're earning that
4 income, we know that there's such tremendous
5 potential if they can be connected to that non-
6 custodial account.

7 And I think the other key barrier is
8 ID requirements. A lot of people who are minors
9 don't have the government issued photo ID but do
10 have a school ID. And so some financial
11 institutions have been willing to accept that and
12 change their CIP. But we'd love to see some more
13 ways to really support those kinds of efforts.

14 Because I think with some of the Bank
15 On accounts or really with the Bank On 2.0
16 standards, the accounts that are pretty airtight
17 from a risk perspective. So we'd love to see how
18 we can do some more around those transactional
19 accounts.

20 I think the other point that I wanted
21 to make is that we know from research that when
22 we do these early interventions that there's this

1 generative effect, not just for that young
2 person's life when they set and meet a savings
3 goal. We know the second goal is generally a
4 larger monetary amount and also longer term.

5 So our data has shown that it's really
6 changing their time horizons, increasing their
7 confidence in themselves, not just in their
8 financial choices and their financial lives but
9 in their career thinking and just their own sense
10 of their own potential.

11 But we also know from Pew Research
12 from a few years back that when you're raised in
13 a saving household, you're much, much more likely
14 to be economically mobile. So that we know if we
15 can provide these supports from young people, we
16 know they use them and they do great things for
17 themselves. But it also puts them in a position
18 where they're likely raising children who will
19 also be economically mobile. So I think from
20 that data perspective, it's an exciting approach.

21 How am I doing, Jonathan?

22 MR. MILLER: You're out of time.

1 MEMBER LIBBY: I'm out of time. Okay.
2 So I won't talk about the coaching that young
3 people need when they're 18 to 24. Many
4 financial diverse decisions that having a little
5 bit more of some of the coaching, Bob, that you
6 talked about is so essential to give them those
7 supports as they make those decisions. I will
8 not mention that.

9 (Laughter.)

10 MEMBER LIBBY: Okay. Thank you very
11 much.

12 MR. MILLER: Thank you so much. It
13 didn't take her long to learn, did it? Alden?

14 MEMBER MCDONALD: Thank you very much.
15 My name is Alden McDonald. I'm president and CEO
16 of Liberty Bank out of New Orleans, African
17 American owned bank. We operate a community bank
18 that operates within the rules and regulations of
19 the banking industry.

20 What we bring to the table is
21 information from another aspect of banking in the
22 community. And before I go any further, I want

1 to thank again the FDIC for its understanding of
2 the work that the minority banks play in the
3 communities of color.

4 As more things in the country begin to
5 reach out into the communities, we still see a
6 tremendous need. And the FDIC has been supplying
7 the banking community with the proper
8 information, the proper statistics, and the
9 encouragement to do more.

10 And so I want to congratulate again
11 the leadership of the FDIC and the staff for
12 providing this information. It's much needed
13 throughout the community.

14 I want to thank the members who are
15 departing our commission here and for the
16 information you have provided all of us. And I'd
17 like to encourage the newcomers to feel very free
18 to express yourself because this task force over
19 the years, we've been very honest about the
20 issues that we face in the community. And that
21 is what has caused the FDIC to create the good
22 work for the banking community. So I'd like to

1 encourage the new members to really feel free to
2 put it out there.

3 When Jonathan asked for us to share
4 what we see in the community, it reminded me that
5 Congress chartered the first bank in 1870 to
6 assist free slaves to enter into the economy that
7 we live in today. Those challenges still exist
8 today.

9 I've been around for 47 years as a
10 CEO. So I've been through many ups and downs in
11 the economy, and I've been able to see
12 improvement and I've been able to see the economy
13 go back in a negative way. And we are very proud
14 in our institution of the challenges that exist
15 and to try to formulate methods of erasing the
16 challenges that continue to exist in the
17 community.

18 I broke down my comments basically
19 into three different areas of information to give
20 to this body. We see more deterioration in the
21 income gap. The income gap is very real. Some
22 members made reference to the different research

1 pieces that proves that out.

2 So in the community in the income gap,
3 we're trying to put things together to help that
4 income gap close going forward. And in the past,
5 we've referred to financial literacy and going
6 forward. And in our shop, we're trying to change
7 the financial literacy phrase to increasing your
8 wealth.

9 And even in our employ -- we're in
10 eight different states by the way and ten
11 different cities -- we see this income gap in all
12 of the areas we serve. We see the second part of
13 the affordable housing crisis we call it. It's
14 an affordable housing crisis that we've been
15 noticing now for about 10 to 15 years and it's
16 getting worse.

17 In the affordable housing crisis, the
18 way we see it in the communities coming from a
19 number of different directions. Number one, the
20 income gap, that's real. But the second piece is
21 increased cost of housing through insurance
22 coverage and real estate taxes.

1 In the communities we serve, we've
2 seen in some communities real estate taxes triple
3 within the last 12 to 13 years and insurance
4 costs triple. We finance a lot of homeowners
5 that can't qualify for the secondary market. So
6 we have a portfolio of about 100 million of
7 people that we have financed over the years who
8 couldn't qualify for the secondary market for
9 whatever reason.

10 And we're beginning to see more and
11 more of the escrow requirement outstripping the
12 P&I and causing higher delinquencies. And when
13 you take a look at the income gap, what we've
14 seen is more and more of the consumers using
15 credit card debt to cover that gap which is
16 putting them deeper and deeper into financial
17 trouble.

18 We've been looking at this, and we're
19 trying to find different ways of helping to
20 overcome this, not only from a safety and
21 soundness position. And I want to probably say
22 that we foreclose on less than three homes a

1 year. And we have credit scores down to the 550
2 range, and we do 100 percent financing. And so
3 we've been able to do all of these things in
4 support of not only wealth building but
5 homeownership.

6 In New Orleans today, we have
7 convinced some of our leadership to look at how
8 we could adjust the real estate tax issue because
9 the real estate tax piece continues to go up as
10 property values go up.

11 And so we're looking at it. And
12 within the next six months, we think the city is
13 going to incorporate some changes where we can
14 freeze the real estate taxes for certain
15 communities as well as certain income groups. So
16 it's a policy change.

17 And when you take a look at some of
18 the other issues on affordable housing, I think
19 we continue to talk today that homeownership
20 assistance for 80 percent family income -- median
21 income is where the assistance is.

22 We're finding that the 80 percent rule

1 can't afford the house anymore. So how do we
2 begin moving that up to 100, 110 percent of
3 median income? Because that's where some
4 assistance is needed. Otherwise, we're going to
5 go backwards.

6 We began to see the deterioration in
7 those neighborhoods and the lack of increase in
8 value. In those particular neighborhoods, we
9 have a lot closures of shopping centers, shopping
10 malls which continues to decline the value in
11 these neighborhoods.

12 I make that association simply because
13 I think going forward we need to concentrate on
14 some policy changes, centered around wealth,
15 centered around real estate, centered around
16 homeownership. And some of the policy changes
17 are very, very important for us to make sure that
18 we stop the blight that's taking place now in the
19 urban communities.

20 Two additional things I'd like to just
21 put on the table. The cost of construction
22 continues to increase, and I know that's the

1 marketplace. But we have to find some policy to
2 offset some of that cost.

3 I was recently in St. Louis trying to
4 assist a neighborhood of coming back and the
5 developers are still talking about housing costs
6 in those neighborhoods above \$150 a foot. So
7 when you begin looking at that, begin looking at
8 individuals in those communities, their income
9 levels, that's not going to work. So we need an
10 overhaul of the policy changes.

11 The other piece that we're doing for
12 wealth building and we started with our staff of
13 teaching individuals what to do with their
14 retirement dollars and how to invest. A lot of
15 people have 401(k)s and they don't know what to
16 do with it.

17 So we started some adult classes
18 within our community in helping individuals
19 navigate through how to invest their retirement
20 dollars so that they can at least have some type
21 of life after work.

22 And the other thing that we're looking

1 at -- and I don't know whether we're going to be
2 successful at it. But we're looking at a summer
3 camp for youth to teach them about the
4 marketplace, teach them about investments, teach
5 them about how to use their income dollars when
6 they become wage earners. And we'll keep you
7 posted on that.

8 Thank you.

9 MR. MILLER: Thank you very much.

10 Jonathan?

11 MEMBER MINTZ: Thank you. I'm so
12 happy to be here. I'm really honored and there's
13 few partners that rival the FDIC. And thank you
14 to Jonathan. I'm the other Jonathan in this
15 room.

16 I appreciate the opportunity to sort
17 of use this group and the audience to think
18 around an issue that we've been struggling with
19 at the CFE Fund.

20 As you know, the issue, not to hide
21 the ball, is really trying to bridge the divide
22 between tech advances and, in particular, the

1 rise of branchless banking and the need for
2 something Jose mentioned earlier which is the
3 ability to make cash deposits and to be able to
4 cash checks. And it is that divide that I want
5 to talk about for a few minutes as we wrestle
6 with it.

7 The CFE Fund runs the Bank On
8 initiative. We're working with about 80
9 coalitions around the country supporting their
10 work. We certify accounts that meet the national
11 standard which was, as Marty mentioned,
12 absolutely inspired by, built upon, advised by
13 the Safe Accounts Pilot here at the FDIC.

14 And we've been learning some
15 interesting things in our efforts and in our
16 partners' efforts to connect people ideally
17 through municipal programming into these
18 certified accounts.

19 We partnered with the Federal Reserve
20 Bank of St. Louis that worked with four of our
21 financial institution partners, our seed partner
22 at Chase, Wells Fargo, Bank of American, and U.S.

1 Bank to collect information about how those
2 certified accounts were doing and how people were
3 doing in those certified accounts.

4 We are about to come out with data for
5 2018. But at the moment, I'm allowed to talk
6 about data from 2017. And the data was really
7 instructive and exciting. There were about three
8 million accounts just in those four institutions
9 that were opened in that year, 600,000 alone had
10 been opened in that one year in just those four
11 institutions.

12 And what we found was that 72 percent
13 of the people that were opening these accounts
14 were new to that financial institution. So I do
15 think that we are largely talking about the
16 population that we are together trying to serve
17 and to connect into or back into the system.

18 The conundrum that we have is that
19 while about two-thirds of those people were
20 interacting with those accounts in a tech
21 friendly way. They were employing various
22 technological capabilities of the financial

1 institutions. The truth is only a third of them
2 have direct deposit and 87 percent of them were
3 making regular cash deposits into those accounts
4 with a monthly average of just under \$300.

5 So the simple truth is that even as
6 people are successfully reentering the system
7 thanks to safe accounts offered by many of the
8 folks at this table, as the market begins to
9 increasingly incorporate branchless banking and
10 branchless bank providers. And many of them are
11 coming to the CFE Fund seeking certification for
12 their accounts as being Bank On compliant.

13 The truth is we're trying to figure
14 out as we take a look at our standards which
15 refreshes every two years. The best piece of
16 advice I ever got from the FDIC is really to
17 figure out, well, if we are going to be
18 embracing, we -- and Bank On, we as a community
19 if we are going to be embracing the role that
20 branchless providers can play with good accounts,
21 then what are our expectations? Or from a Bank
22 On perspective, what are our standards in regard

1 to that part of the banking equation which is not
2 all online.

3 And so that's, simply put, the issue
4 that we're wrestling with. And over the course
5 of the day and breaks and afterward, we would
6 really appreciate any people's thought on that
7 subject. Thank you.

8 MR. MILLER: Thank you very much.

9 Pam?

10 MEMBER PATENAUDE: Good morning. And
11 I'd like to also add my thanks to Chairman
12 McWilliams for inviting me to serve on this
13 advisory board. And to those of you that will be
14 departing, I'm very sad because I've heard some
15 really fascinating ideas. And my brain is just
16 spinning on what to share with you.

17 So I'm going to focus just on two
18 recent experiences and ongoing work with the
19 community in Puerto Rico. I'm going to touch on
20 the easy one first. But I wanted to share my
21 experience with Habitat for Humanity.

22 I recently joined the board, but I've

1 been working with Habitat for more than two
2 decades from my work at HUD. But this was my
3 first hands-on experience where I worked
4 alongside 21 homeowners for a week at the Carter
5 Build.

6 And some of these families applied
7 four, five, six times before they were eligible
8 to be selected as Habitat homeowners. And some
9 of the challenges were the language barriers.
10 The family that we worked with on the house that
11 I worked on was from the Congo. And if we had
12 not had the translator there, we never would've
13 learned the story.

14 So I just wanted to touch on that.
15 And then second, Puerto Rico, I'm very passionate
16 about Puerto Rico. As most people know when they
17 google me, that's the first thing that comes up.
18 And the challenges are tremendous.

19 But because of my appointment to this
20 advisory board, I started thinking about the
21 opportunities and the connections. And this was
22 my conversation with Liz. Is Liz in the room?

1 Okay. I have not met her in person.

2 Thousands of families are unbanked if
3 that's the proper terminology to use. In Puerto
4 Rico, there's an informal economy. More than
5 half of the housing is informal. Title issues
6 are tremendous challenges. Not the first time
7 that disaster survivors have been faced with
8 title issues. We encountered that in Louisiana.
9 But in Puerto Rico, it's a much higher
10 percentage.

11 So these families are not currently
12 connected to the regulated banking system. And I
13 have a thought about how that could happen,
14 although I can also think of some potential
15 criticism of this. But somewhere around \$90
16 billion of federal funding will flow into Puerto
17 Rico. Only a fraction of that has through the
18 FEMA fund has actually reached Puerto Rico. Only
19 one percent of the \$20 billion of CDBG-DR has
20 been dispersed in Puerto Rico.

21 So through some of these programs,
22 whether it'd be small business loans or

1 reimbursement for rehabs on homes, this money is
2 going to change hands from the federal government
3 through Puerto Rico and then to the disaster
4 survivor. And if direct deposit was required,
5 that would be a nexus to the banking system.

6 I brought this up with one of my
7 colleagues that I'm working with right now, my
8 consulting business. That would be
9 discriminatory. So then I worried about even
10 bringing it up until I could really think this
11 through. So I think this committee could be very
12 helpful in helping our fellow citizens in Puerto
13 Rico access the financial mainstream, if you
14 will.

15 So thank you again for this
16 opportunity. I look forward to working with you,
17 not just on Puerto Rico.

18 And just one final comment. When I
19 did talk to this colleague of mine, he mentioned
20 that in Florida Walmart was cashing the checks
21 for the disaster survivors. And I didn't know
22 Walmart was in the banking system. So they're

1 leaving with cash in their hands then. And that
2 certainly is not a safe way to save.

3 Thank you.

4 MR. MILLER: Thank you very much, Pam.
5 John?

6 MEMBER WEICHER: Thank you, Jonathan,
7 and thank you, Marty, for appointing me to this
8 committee half a dozen years ago. I have enjoyed
9 the meetings and I have enjoyed my colleagues. I
10 have learned a lot, and I am very grateful.

11 I'm with a different kind of
12 organization than the organizations that all of
13 you are with. We are a think tank. We don't run
14 the kinds of activities which you have been
15 describing, although we have from time to time
16 gotten involved, particularly with state
17 governments.

18 And I'm particularly pleased with a
19 project we had which created a new property tax
20 reversion system for the State of Michigan to
21 replace the system that had been enacted right
22 after the depression of 1893 so that farmers

1 would be able to keep their property if there was
2 a bad year of crops. They wouldn't lose their
3 farm.

4 That system is one major reason why
5 Detroit is famous -- has been famous for
6 abandoned housing. And on a lesser extent, so
7 had most of the other towns and bigger towns in
8 the state of Michigan.

9 But we are a think tank, and we cover
10 the world. And you may have missed our session
11 last week on policy challenges in the Arctic and
12 around the Arctic which attracted a respectable
13 crowd of people who know something about the
14 Arctic, not including me.

15 Wade mentioned that the committee was
16 started 12 years ago. And as an economist, I
17 think of 12 years ago in a different context.
18 Twelve years ago -- 12 years ago and two months
19 is the start of the Great Recession. And it has
20 been the worst recession. It was the worst
21 recession that we've had in this country since
22 the end of World War II. And it has been the

1 slowest recovery from any economic downturn that
2 we've had since the 1930s.

3 And listening to my colleagues, you
4 have been working in an environment where the
5 wind is dead against you and has been against you
6 for as long as this organization has existed and
7 certainly as long as -- for a long part of the
8 time that you all have been working in this area.

9 And several of my colleagues have
10 talked about wealth in America. And in the first
11 couple of years after the onset of the Great
12 Recession, American households lost a quarter of
13 their wealth which is an impressive achievement
14 in its way.

15 We had \$88 trillion in wealth among us
16 in 2007 and \$66 trillion among us in wealth in
17 the year 2010. And it hurt everybody. It hurt
18 the rich and it hurt the poor.

19 But if you were in the riches 20
20 percent of the population of the United States,
21 you lost about 11 percent of your wealth on
22 average. And if you were in the poorest 20

1 percent of the population of the United States,
2 you lost half of your wealth on average in three
3 years.

4 Not that there was a lot to begin
5 with, but there was a lot less and in a quite
6 short period of time. Things have been improving
7 since then, but it's been a slower process than
8 we've experienced in the aftermath of other
9 economic downturns.

10 And also looking at the changes that
11 have occurred for different groups in the
12 population, white households and other households
13 which are primarily Asian Americans in the data
14 are not too far below where they were on average
15 ten years ago. Black and Hispanic households are
16 farther away from where they were ten years ago
17 on average.

18 It hasn't been a good time for a lot
19 of people, and I kept thinking about as I was
20 listening to what you all have been doing over
21 this years of this weak economy. I think in the
22 housing world -- in my background in the housing

1 world, we have seen a decline in homeownership
2 which has only started to turn up about three
3 years ago and has a ways to go before it catches
4 up. And I know we're going to hear about some of
5 that this afternoon.

6 It's been -- it hasn't been a great
7 market. It hasn't been a great time for those of
8 you who are involved in housing. And I'm pretty
9 sure it hasn't been a great time for those who
10 are making loans to people or mortgages and
11 rehabilitation, renovation, whatever it might be.

12 It seems likely the work of this
13 committee over the next few years and the work of
14 your organizations will be with a little more of
15 a headwind -- a little more of a tailwind. I'm
16 not good at weather. It'll be a fairer climate
17 for you, but it will still have a ways to go.

18 So I want to wish you all well. My
19 colleagues who have been on the board, I have
20 enjoyed meeting with you, talking with you,
21 learning from you. And to Jonathan and to the
22 staff, I have enjoyed the presentations.

1 I cannot finish without mentioning my
2 suggestion to the FDIC is to find a principle of
3 selection for speakers that is not alphabetical.

4 (Laughter.)

5 MEMBER WEICHER: I have sat in this
6 chair --

7 (Laughter.)

8 MEMBER WEICHER: -- and this
9 microphone, which I think works even though it's
10 not attached to anything, for many meetings
11 wondering if I was going to have anything left to
12 say after all my colleagues have spoken. And I
13 want to thank you for leaving me room for things
14 to say over these last few years.

15 And thank you, Marty.

16 MR. MILLER: Thank you very much. I
17 think we're scheduled for a 15-minute break. And
18 that was terrific hearing from everybody. Thank
19 you very much. See you in 15 minutes.

20 (Whereupon, the above-entitled matter
21 went off the record at 10:27 a.m. and resumed at
22 10:45 a.m.)

1 MR. MILLER: So for our first panel
2 today, the moderator is going to be Keith Ernst.
3 He's Associate Director for Consumer Research in
4 a Division of Depositor and Consumer Protection.
5 I'll hand it over to Keith.

6 MR. ERNST: Great. Thank you,
7 Jonathan and good morning, members of the
8 committee. And I thought about how to place the
9 panel in some context. And I thought back to
10 results from our most recent survey.

11 In that, the FDIC reported that one in
12 five households didn't have access to mainstream
13 credit in the last 12 months. As a result, they
14 likely lacked a credit score which if you think
15 about it, it really means if they have a need for
16 credit when challenges arise, they're going to
17 have a hard go of it.

18 And this is true, even though a large
19 majority of these households have a bank account.
20 Many other consumers have a thin credit file,
21 applies only a limited basis for evaluating their
22 creditworthiness.

1 Well, not all these consumers will
2 want or necessarily have the ability to repay
3 credit. These observations illustrate the
4 benefit that can flow from advancements in
5 underwriting technologies.

6 This morning, we're fortunate to be
7 joined by four panelists who have considerable
8 experience and expertise to help us consider
9 related developments.

10 First, we'll hear from Jason Gross,
11 CEO and co-founder of Petal, a credit card
12 company that works to deploy innovative
13 underwriting and to extend credit to a broad set
14 of consumers.

15 Next, we'll hear from Kelly Cochran,
16 Deputy Director of FinRegLab who will share
17 results of research exploring how cash flow based
18 underwriting may complement traditional credit
19 measures.

20 Following Kelly, Daniel Nestel from
21 FICO will discuss the company's efforts to use
22 information beyond traditional credit bureau data

1 to better score consumer's credit risk.

2 Finally, we'll conclude opening
3 remarks with Lauren Saunders from the National
4 Consumer Law Center who will point out some
5 potential concerns that attend these
6 developments.

7 Now in addition to questions that
8 Lauren might raise, I expect that members of the
9 committee will have questions of your own. I'd
10 ask you to please hold your questions until after
11 the presentation. And knowing the committee, if
12 I don't, we will not get to --

13 (Laughter.)

14 MR. ERNST: I think it's going to be
15 a rich conversation. I know this is an area of a
16 lot of interest, if we think about what are the
17 opportunities to expand access and use
18 small-dollar credit within the financial
19 mainstream. Developments like the technologies
20 we'll hear about today are a potential concern
21 and a promising avenue. And so without further
22 ado, I'm going to pass the floor over to Jason

1 Gross.

2 MR. GROSS: Thanks very much, Keith.

3 And before I begin, I would like to thank
4 Chairman McWilliams and the larger FDIC for
5 hosting us today. I think it's a really
6 important topic that we're discussing obviously,
7 but with some really exciting new developments
8 that are occurring and have occurred over the
9 last couple of years.

10 I want to maybe begin -- and I have no
11 slides for my presentation. But I want to begin
12 by putting my organization in context so you have
13 some understanding of what we've done, the data
14 that we've seen, some context for our learning,
15 et cetera.

16 We started this organization known as
17 Petal about four years ago and began talking
18 about issues related to credit access quite some
19 time before that. We are a purpose driven
20 organization in that we started the firm setting
21 out solve some particular problems that we saw in
22 the marketplaces.

1 And in particular, we were very much
2 sort of inspired by the work that we had seen
3 from the public and private sectors six, seven
4 years ago around measuring access to credit and
5 starting to understand folks that we've referred
6 to as credit invisible, thin file, the size of
7 that market and the problems that result for
8 consumers and for families.

9 This was a problem that was -- it was
10 personal to our founding team. We had a founding
11 member of the team, it's a first generation
12 immigrant to the United States. And despite his
13 income, his relationship with a U.S. financial
14 institution, he was unable to qualify for
15 mainstream credit. So he had sort of a personal
16 experience with the system.

17 But of course, as the CFPB and others
18 have pointed out, there's a tremendous number of
19 Americans that lack a full credit file such that
20 you can generate an accurate credit score, 45
21 million Americans with no score, tens of millions
22 of additional thin file consumers.

1 And demographically, these consumers
2 are not a cross section of the U.S. population.
3 They are disproportionately young. They are also
4 disproportionately minorities, blacks and
5 Hispanics in particular, low and moderate income
6 consumers and first and second generation
7 immigrants.

8 We looked at this problem and had kind
9 of a similar insight into what Keith mentioned in
10 the overview that while these consumers may be
11 invisible from a traditional credit score
12 perspective, they're certainly not invisible in
13 the larger marketplace.

14 And in fact, the vast majority of them
15 have plenty of other financial data, the type of
16 which we use every single day in the underwriting
17 of other sorts of financial products that today
18 is not being used in the decision to extend
19 small-dollar credit like a credit card, for
20 instance.

21 And not only does that data exist but
22 it is becoming digital, standardized, and

1 accessible through the control of the consumer to
2 use, to verify their identity, and to confirm
3 their creditworthiness and their ability to repay
4 a loan.

5 And we set over the following four
6 years to build technology and consumer financial
7 products that could leverage all of that
8 additional information. And I hesitate to call
9 it alternative information because really what
10 I'm referring to are digital bank statements, the
11 direct measurement of a consumer's ability to
12 pay.

13 The verification of income, liquid
14 assets, other monthly expenses, these are things
15 we've been using to underwrite loans arguably for
16 hundreds of years, right? But we built
17 technology to access the data and to underwrite
18 it in an automated rather than a manual process
19 which, of course, allows you to extend it in a
20 cost effective manner to small-dollar lending.

21 Today we offer a credit card product
22 that's specifically designed for these consumers

1 that are new to credit. We're able to leverage
2 the rest of their financial picture, the rest of
3 their financial data to underwrite them for the
4 product, including if they have no traditional
5 credit information at all. We can generate our
6 own proprietary score.

7 About 70 percent of our overall user
8 base is thin file or credit invisible today. And
9 we are able to extend to them credit at lower
10 cost than they would get anywhere else in the
11 marketplace because of the additional data that
12 we can use to price that risk.

13 And I think over the course of the
14 panel, I'd be happy to speak to our learnings so
15 far in operating this product in the market. And
16 we've been very fortunate to collaborate with
17 some of the other panelists as well on these
18 issues over the last couple of years.

19 MS. COCHRAN: Hello. My name is Kelly
20 Cochran. I'm the Deputy Director of FinRegLab
21 which is a new non-profit research organization
22 that started in 2018. We're focused specifically

1 on technology and data and financial services to
2 look at ways to drive financial inclusion and
3 encourage safe and responsible products.

4 Our first project -- major research
5 project has focused on use of cash flow data.

6 And I joined the organization earlier this year.

7 So I'm really happy to present our results.

8 We're in the process of publishing a
9 number of papers about our project. The
10 empirical results which are mostly what I'm
11 focusing on today came out this summer. A second
12 report looked at small business lending in
13 particular and how this data is being used in
14 that market. The third report will look more at
15 the consumer market and our policy issues
16 overall. It'll be forthcoming this fall.

17 So one thing that we feel is really
18 important to start with is just what is cash flow
19 data because it means different things and people
20 use it in different ways. What we primarily
21 looked at were records from consumer and deposit
22 and card accounts. But it can also include bills

1 and receipts. So not all of it is electronic.
2 And some of the participants in our study did use
3 paper sources as well as electronic.

4 And then in the small business world,
5 there are additional sources, things like
6 accounting software feeds, payment processor
7 records, e-commerce records, and other sources
8 that can give at least a partial view of cash
9 flow. Although they may not show the business'
10 entire set of operation.

11 As Jason has already said, one of the
12 things -- in some sense, this data has been used
13 for generations for underwriting. What's really
14 different here is that people are collecting more
15 of it electronically and using algorithms and
16 highly automated processes to do very
17 sophisticated, consistent analyses to derive more
18 insight from this kind of information.

19 When we set out to do our project, we
20 had gathered data from six companies on all known
21 banks, really a range of different products and
22 services. All of them are providing some form of

1 unsecured credit, but it really varies.

2 Two were small business -- focused on
3 the small business market, four on consumer. And
4 we had two CDFIs, a number of fintechs. So a
5 really broad range of companies that are serving
6 different markets. Their product structures are
7 different, so really a range. It was all
8 unsecured, relatively short term. Up to about
9 four years is the longest, a long length. But
10 really a variety and a rich source.

11 We ended up having to study the
12 results -- the loan level results for each
13 company separately. We couldn't combine the data
14 sources because it was just too diverse to make
15 that practical. And when we did that, we working
16 with Charles River Associates and set out to
17 basically analyze the three research questions
18 that are on the slide.

19 The first was just, like, a general
20 predictiveness to find out how predicted is this
21 data. And where we could and had the data
22 available, we also benchmarked it against more

1 traditional metrics, traditional credit scores
2 and attributes. And in some places, we were able
3 to combine the two sources and see what that
4 further did to the predictiveness.

5 The second question was looking at
6 inclusion. All of the companies that we worked
7 with have a particular focus on serving
8 underserved markets. We wanted to get some sense
9 of whether they were, in fact, able to reach
10 applicants that might have trouble accessing
11 credit under more traditional metrics and data
12 sources.

13 And the last question was to begin to
14 look at the fair lending effects to see if there
15 were differences in the results.

16 We had several different findings
17 which I'll just kind of march through. But I
18 want to save some time for the graphic on the
19 next page. In terms of the predictiveness, the
20 overall results were quite compelling where we
21 had loan level data and were able to analyze. We
22 found that the cash flow data was in fact

1 predictive.

2 Different companies were using
3 different types of variables. It really ranged.
4 But in general, they were looking at things like
5 inflows, outflows from the account, what's the
6 balance in the account, are there negative
7 balance incidents, those sorts of things. Really
8 getting a sense of how the applicant is managing
9 their finances on an ongoing basis.

10 And what we found was that it was, in
11 fact, quite predictive. The cash flow metrics
12 generally performed as well as the traditional
13 metrics that we had available for comparison.
14 And in some cases actually performed better. And
15 then the other really interesting thing is that
16 when we were able to combine the two sources, we
17 often found an additional source of lift.

18 And so what seems to be happening here
19 is that cash flow data is actually telling these
20 companies something slightly different than what
21 the traditional scores are telling them which
22 kind of makes sense if you think about the nature

1 of the data because it's showing not just the
2 expense side but also the income side and some
3 sense of overall reserves over time.

4 And so it's complementary and it is
5 actually providing lift even for consumers or
6 small business applicants who do have traditional
7 scores. It is adding value even in that
8 situation.

9 In terms of inclusion and fair
10 lending, our data was a little bit more limited
11 in these two areas. But we were able to study
12 what we could. What we generally found was that
13 there was evidence that the various study
14 participants were able to reach different
15 applicants who might have been underserved.

16 In some places, we were able to look
17 at traditional score ranges. Some places, we had
18 income information and looked at geography in
19 various different metrics. There was not a
20 consistent metric that we could across every
21 single participant. But the results were
22 encouraging.

1 And then on the fair lending side, we
2 weren't able to do a full fair lending analysis
3 or the type that a company would do for itself in
4 a compliance exam. But what we could do was use
5 a proxy analysis to determine likely demographic
6 groups, both in terms of race and gender. And
7 then compare the results for each of those groups
8 separately to see what the predictiveness was.

9 What we found was that the data was
10 general predictive for all of the groups. There
11 were not large variations between the groups.
12 And so what seems to be happening here that it's
13 not proxying for race or demographic status.
14 What it is doing is providing independent
15 predictive value.

16 That's certainly encouraging and it's
17 consistent with -- it's a similar test to what
18 the Federal Reserve Board did when they were
19 studying traditional credit scores several years
20 ago in a report to Congress. But again, it's not
21 the full picture and there are many things we
22 don't know.

1 We do know that there are some
2 differences, for instance, in transaction account
3 between different demographic groups that certain
4 groups, African Americans and Hispanics, are more
5 likely not to have transaction accounts as well.
6 So this is not likely to make all demographic
7 differences disappear. But it is an encouraging
8 sign that it may be useful information in this
9 space.

10 This is the graphic that I wanted to
11 explain. It's a little bit complicated, so stick
12 with me.

13 (Laughter.)

14 MS. COCHRAN: Where we were able to,
15 we differentiated for each of the participants.
16 We differentiated the output of the borrowers
17 based first on their traditional metrics. So
18 that's along the -- in each of the rows is a
19 different cluster of borrowers with similar risk
20 profiles using traditional metrics.

21 And they we differentiated them by
22 cash flow metrics, and there's a couple of things

1 that stand out. What this is doing is showing
2 default rates and how close they are to the
3 median for this particular participant.

4 When most people read this, I think
5 the first thing they notice is that there's a lot
6 of red in the top corner and a lot of green in
7 the bottom corner. Now those are places where
8 the two metrics are predicting the same thing,
9 and the default rates are kind of what you
10 expect.

11 But what's really interesting is if
12 you go row by row across, what you see is it
13 starts red and goes towards the green. And
14 that's the differentiation that we're talking
15 about because in each row, these borrowers are
16 ones that are ranked as being about as risky
17 using traditional metrics. But when you look at
18 the cash flow metrics, they start to separate
19 out. You can differentiate risk.

20 So that's -- it's a visual
21 illustration of the effect that I was talking. I
22 should say in the gray rows, if there were less

1 than five observations, we had it gray. So
2 that's why there's a different color there.

3 There aren't necessarily equal numbers
4 of borrowers in every single one of these cells.
5 So it does vary a bit. But one of the things, we
6 weren't able to study this. So we don't know for
7 sure based on empirical analysis.

8 But one of things that's maybe shown
9 particularly along the right margin where there's
10 a lot of green, these may be thin file consumers
11 or borrowers. Or they may be people who have had
12 marred credit who have actually recovered so that
13 their finances are more stable. But their
14 traditional scores may still be relatively low.
15 So we weren't able to study that for sure. But
16 that's certainly one hypothesis for what may be
17 causing some of this spread.

18 So just really briefly to talk about
19 our next couple of reports. We are seeing an
20 evolving market, particularly in our second
21 report.

22 As we detailed, there do seem to be a

1 number of different types of institutions
2 including both large and small banks as well as
3 community development organizations and even some
4 companies who are really actually not primarily
5 financial services companies who are getting into
6 this space and using cash flow data in some way
7 or another to make loans to borrowers.

8 And in particular, they seem to be
9 focusing on the smaller side of the small
10 business market. There's a lot of demand, and
11 it's often very difficult to serve that market in
12 a cost effective way. So that's an encouraging
13 sign.

14 In the consumer side, our sense is
15 that the adoption is a little slower on the bank
16 side. But we are seeing it continue to grow.
17 And people are certainly using this kind of data
18 for verification, even if they're not actually
19 feeding it into their underwriting processes.

20 And going forward, as I said, we'll
21 also be looking at some of the policy
22 considerations. This slide just outlined some of

1 them. And I know Lauren is going to talk more,
2 so maybe we can save that for the overall
3 discussion.

4 Thank you.

5 MR. ERNST: Thank you, Kelly. Daniel?

6 MR. NESTEL: I'm Daniel Nestel. I
7 lead government relations for FICO. I'm based
8 here in the Washington, D.C. area.

9 Just as a way of background, I suspect
10 many of you are familiar with FICO because of our
11 work in credit scoring. But you may not be as
12 familiar with some of our work in other areas.

13 Back in the 1990s, we pioneered a
14 fraud detection solution in the payment card
15 space. Today we protect 2.6 billion credit
16 cards, debit cards globally across 9,000 banks.
17 We have just announced that we are developing a
18 platform to address the new landscape of
19 real-time payments and the convergence of fraud
20 and financial crimes.

21 We have solutions -- leading solutions
22 in the cybersecurity space, the financial crime

1 space. And we use analytics and AI and ML and
2 all of the buzzwords to help businesses make
3 quicker, more efficient, more informed decisions.

4 Everything from airlines that use our
5 analytics for logistics. We allocate gate
6 allocations for their planes that are arriving at
7 airports to professional sports leagues that use
8 our optimization solutions to determine the best
9 schedule for their games. But today we're here.

10 CHAIRMAN MCWILLIAMS: So I just have
11 to interrupt. So you are to blame for all of my
12 gate changes?

13 (Laughter.)

14 MR. NESTEL: No, Chairman McWilliams,
15 we are actually to ensure that your gates are
16 closer to where you have to be. And I hope the
17 airlines that are using us are --

18 (Simultaneous speaking.)

19 CHAIRMAN MCWILLIAMS: Well, I'm not a
20 good runner. So if you can, like, shrink the
21 distance when you move me to another gate, I
22 would greatly appreciate it.

1 MR. NESTEL: We're here -- I'm here to
2 talk a little bit about what we're doing in the
3 financial inclusion space, but specifically some
4 of the credit scoring innovations that we've been
5 working on to help drive those initiatives.

6 So 2019 is a big year for FICO because
7 we're celebrating an anniversary, 30 years of the
8 FICO score. Back in 1989, we introduced the FICO
9 score that many people refer to as the classic
10 FICO score. This is the score that leverages the
11 credit bureau data from each of the credit
12 bureaus to drive our score.

13 And it's also -- 2019 is also a
14 milestone. We are now working in 30 countries
15 across the globe on credit scoring innovation and
16 financial inclusion, doing some really
17 interesting work which I'll just refer to in a
18 slide or two forward.

19 When we were developing -- during the
20 30 years that we've been working on the FICO
21 score, it's not surprising that we've come out
22 with updated versions. Our latest version is

1 FICO Score 9. It is our most predictive FICO
2 score to date.

3 When we were developing that score, we
4 did a fair amount of voice of customer. And
5 around that same time, we had some lenders come
6 to us and say, FICO, we understand you score
7 about 200 million consumers today.

8 But we also understand that there are
9 about 53 million -- we've heard 45 million FICO
10 depending on the data set. We arrived at about
11 53 million that the classic FICO score is not
12 scoring today. Half of those, roughly half, 25
13 million are credit invisibles. They have
14 nothing, no files at the credit bureaus. And
15 then the other 28 million or so, we are not
16 scoring them because we have insufficient data to
17 return an analytically sound score.

18 And the lenders really encouraged us
19 to do some additional research. They did not
20 want us to lower our standards and simply just to
21 score more folks. What they did want us to do
22 was to look at alternative data sources to see if

1 we could bring in new insights on the credit risk
2 profiles of some of these 53 million folks.

3 And this is when we started to really
4 delve deeply into data sets that resided outside
5 of the credit bureau files. That's how FICO has
6 kind of looked at alternative data, data that
7 resides outside of the credit bureau files.

8 So we look at alternative data in
9 categories. And this here shows the kind of
10 hierarchy of data and credit risk predictions
11 that we look at across the globe.

12 Not surprisingly at the top of the
13 pyramid is financial account data. You can see
14 the credit bureau trade lines as well as -- and I
15 want to highlight this because it's been a theme
16 -- demand deposit accounts which we're going to
17 talk about in just a few minutes.

18 In the third box there is
19 non-financial data. In many geographic locations
20 around the world, we are leveraging some of this
21 data. Where credit bureau data just doesn't
22 exist or is very sparse, we can use greater

1 insights.

2 These insights that we're gaining from
3 this data, we may not be using it here. But it
4 helps inform our work. I want to concentrate,
5 though, on the second box because this is pivotal
6 in the kind of story that I was referencing about
7 our initial research efforts.

8 Telco utility data, there's some
9 confusion around this. FICO scores since 1989
10 have considered telco and utility data when it is
11 available in the credit bureau files. The fact
12 is there's not much available today in the credit
13 bureau files. Anywhere between two and a half
14 and five percent of consumer files actually have
15 telco and utility data.

16 Rent is somewhat of a new phenomenon
17 in the credit bureau files. But only about 1.8
18 million out of 80 million renters actually have
19 any trace of rental data in their files.

20 So when we started to look at data and
21 explore using alternative data to build a new
22 score, we ended up in 2016 introducing a score

1 that is used in the unsecured lending space. And
2 it's really used as a second chance score, and it
3 works like this.

4 It leverages a telco database that
5 resides outside of the credit bureau files
6 focused on cell phone data, landline data, cable
7 payments, as well as another data set that has
8 some public records and property records that
9 also do not reside in the credit bureau file.

10 When a consumer would apply for a
11 credit card and become a no hit, a FICO score is
12 not returned. The card issuers now have access
13 to a score which can look at these other data
14 sets and hopefully score these individuals and
15 get them on an on-ramp to credit.

16 Because once they get a traditional
17 credit score, a traditional credit tool, they can
18 then as they make on time payments, those
19 payments are reported into the credit bureaus.
20 And then they get a -- within a few months are
21 eligible to receive a FICO score which can
22 provide them with more access.

1 But we're only looking at -- in this
2 case, we were just looking at the unscorable
3 population. And in terms of kind of looking
4 where we could expand access to credit and
5 financial inclusion, we wanted to look more
6 expansively.

7 And as you can see here in the two
8 addressable markets, the unscorable and those
9 that are not receiving a FICO score today, we
10 also looked at those that were below 680, a FICO
11 score of 680. It's a larger population and one
12 that we thought had a lot of promise for our next
13 initiative which we announced at the end of 2018.

14 So I must say a fair amount of
15 fanfare. We got a front page Wall Street Journal
16 article, and the phones started ringing from
17 financial institutions who were very interested
18 in participating in what would be a pilot project
19 to start.

20 The score is called UltraFICO. And
21 this leverage is demand deposit account
22 information, think checking, savings, money

1 market accounts. But what's unique about this,
2 it's consumer contributed data. So this score is
3 going to be driven with the consumer provides
4 permission to access their bank account
5 information.

6 The score looks like a FICO score. It
7 has a score range from 300 to 850, so very easy
8 to understand for lenders. It's a line to the
9 same score -- odds to score relationship. So a
10 700 performs like a 700 in a FICO score.

11 And as you can see, what we're looking
12 at, if you take the checking account information
13 that's provided by a consumer, we're not looking
14 about what they purchase. We're looking at how
15 they maintain that account over time, the recency
16 and frequency of the banking transactions. Are
17 they maintaining positive balances, and are they
18 incurring negative balances?

19 As you can see in the slide, we have
20 two partners. Experian is our credit bureau
21 partner. They're not only providing the credit
22 bureau that drives the FICO score which is kind

1 of the base here. They're also providing the
2 distribution and the FCRA support.

3 We have a not so young fintech,
4 Finicity. They've been in the data aggregation
5 business for two decades. It's interesting to
6 talk about a fintech that's been doing work for
7 two decades, but they have. And they're the ones
8 that are facilitating the access to the DDA
9 account information.

10 Sometimes it's easy to just look at a
11 graphic on how this works. This is just one use
12 case. The consumer would apply for credit. They
13 would not meet the underwriting criteria. The
14 consumer would be presented with the option of
15 leveraging their DDA account information through
16 UltraFICO.

17 If they gave permission, that
18 information would be obtained through an API that
19 they would credential through a Finicity
20 facilitated portal online. They would get the
21 information, bring it back to Experian who would
22 calculate the UltraFICO score and hopefully the

1 minimum criteria would be met.

2 Let's talk about just -- let me
3 conclude by talking a little bit about
4 preliminary results and then leaving you with a
5 roadmap as to where we're headed.

6 This graph talks about first the
7 applicant population. So why are we looking at
8 the applicant population? We can produce a score
9 that can find many people who have very strong
10 credit risk profiles.

11 But if they're not likely to be an
12 applicant, for instance, they're 81 years old.
13 They paid off their house, their car, their car
14 loan, they're not seeking credit. We have
15 insights to be able to kind of focus on those who
16 are likely to be applicants.

17 So we looked at the applicant
18 population. We also know that this score is --
19 because it's consumer contributed, we're going to
20 see some interesting behaviors. Those who may
21 not be managing their DDA accounts like they
22 would hope, we'll likely not give permission. We

1 know there will be some selection bias here.

2 So what we try to do for both lenders
3 and consumers is hone in on where the real
4 benefits of this score will be seen. So you'll
5 notice that the two criteria we have here is no
6 negative balances within the last three months
7 and a positive balance of at least \$400 average
8 over the past three months.

9 So when you look at this pool, the
10 total applicant pool with these two criteria, we
11 saw about 70 percent of this population will
12 experience a score increase.

13 When we look at the thin young credit
14 files is where we really see the sweet spot for
15 the score. Not only do we see about 78 percent
16 of the population experiencing a score increase,
17 but we see about a 40 percent increase of 20
18 points or more for this population. So about 40
19 percent, excuse me, of this population will see
20 an increase of 20 points or more.

21 When we look at those with FICO scores
22 of less than 680, about 77 percent of this

1 population will experience a score increase. And
2 about one in ten will see an increase of 20
3 points or more.

4 So in conclusion, I'll just leave you
5 with a little idea of where we're at. We
6 announced that we were interesting in having
7 financial institutions engage in a pilot project.
8 We had many people raise their hand.

9 We had three quick early adopters.
10 While I can't release their names, I can tell you
11 kind of generally what they look like in terms of
12 the entities. We have a very large credit union.
13 We have a very large fintech lender, and then we
14 have a credit card issuer that focuses on young
15 buyers.

16 We hope that that those pilot projects
17 will be completed by the end of the year, maybe
18 very early 2020. Around that same time frame, we
19 hope to make the score generally available for
20 financial institutions. We'll have much more to
21 talk about then and really look forward to
22 keeping all of you informed as we kind of do our

1 work, not only here in the U.S. but globally.

2 Thanks very much.

3 MR. ERNST: Thank you, Daniel.

4 Lauren?

5 MS. SAUNDERS: Thank you for having
6 me. I'm Lauren Saunders, the Associate Director
7 of the National Consumer Law Center. I don't
8 have a fancy graphic to put up there, but this is
9 our 50th anniversary this year. I hope we'll see
10 some of you at our celebration in November.

11 At the National Consumer Law Center,
12 we focus on low income and vulnerable consumers
13 and working to make sure that they are protected
14 in the financial marketplace, have access to safe
15 and affordable products, and hopefully are
16 protected against ones that are destructive of
17 their financial health.

18 We think that cash flow underwriting
19 is a promising form of underwriting. Some of the
20 key pillars of responsible lending are a fair,
21 affordable rate and making sure that the person
22 can actually afford to repay the loan.

1 And cash flow underwriting clearly
2 goes to that question. It is basically can be
3 used as a form of residual income underwriting.
4 The basic question of, what income do you have
5 coming in, what expenses do you have coming out,
6 and is there money left over? Which is, of
7 course, not a question directly addressed by
8 credit scores or credit reports. Certainly,
9 there's going to be overlap.

10 But as you've heard, there are
11 certainly populations for whom the credit scores
12 aren't going to work well. And being able to
13 look at that core issue, can you afford to take
14 on more debt and to repay a loan for populations
15 for which FICO doesn't work we think is
16 potentially promising.

17 In particular for people -- for
18 obviously the thin and no-score people that we've
19 heard about gets at that catch-22, you need
20 credit to get credit. I think the jury is still
21 out on that one. It sounds like the FinRegLab's
22 study didn't get too much at that question,

1 focused more on those with a little bit of
2 thicker scores.

3 And for those who have scores but
4 maybe had a problem in the past, they have gotten
5 over. Obviously the financial crisis impacted a
6 lot of people. But hopefully some, at least, are
7 recovering.

8 For those who are relatively new to
9 credit and they have high utilization rates on
10 the few credit lines that they have and they end
11 up with a more negative score. Or just have had
12 trouble getting their feet under them as they
13 start to use credit but are good credit risks
14 today.

15 So we think it definitely has a role
16 in a responsible marketplace. And we are very
17 interested in the studies and the work going on
18 about how to use it.

19 I'd also add that I think it is a
20 better way of accessing utility data than
21 mandating that utility companies report their
22 information to the credit reports. Both being

1 something voluntary and we don't have to get into
2 the problems and risking people's access to
3 government utility programs in the winter or
4 issues of accuracy and whether the utilities are
5 really set up to be furnishers. I think this is
6 a way of accessing that data for those who want
7 to permission it without running to the larger
8 problems of mandatory reporting.

9 That's it. I do have a number of
10 questions about the use of cash flow
11 underwriting. Obviously it is generally accessed
12 through a data aggregator and access to the bank
13 account. And we don't really know how every
14 company is using the data.

15 The FinRegLab's report talks about how
16 they deliberately chose a number of different
17 lenders with different models and who have
18 different proprietary ways that they use the data
19 that you didn't get into and I would, of course,
20 love to know a lot more about.

21 But I think that some of the lenders
22 are very different from Petal. For example,

1 there was a payday lender, a balloon payment,
2 single payment loans at triple digit rates. I
3 suspect that the data from a bank account is
4 probably used differently for that kind of lender
5 than for a credit card like Petal.

6 I think it's important to note that
7 credit risk which is what the FinRegLab's report
8 was getting at. Credit risk from the lender's
9 perspective is not the same thing as
10 affordability or ability to pay from the
11 borrower's perspective particularly because I
12 suspect that the vast majority of the consumers
13 in your study were using electronic -- automated
14 electronic repayment.

15 And so the fact that a particular line
16 of credit or loan was repaid doesn't necessarily
17 answer the question of whether it jeopardized the
18 person's ability to pay other expenses, led to
19 overdraft fees, NSF fees, late fees on other
20 credit lines that aren't even visible in the bank
21 account.

22 So it's not necessarily the same thing

1 for all consumers. It's also possible that some
2 lenders might use this data to find that sweet
3 spot of where they can collect but not
4 necessarily help their financial health. It's
5 not all about, is there money left over at the
6 end of the month? It could be how do we time our
7 payments? What does the ebb and flow look like
8 throughout the month? What kinds of expenses is
9 the person spending money on?

10 In fact, we don't even know -- correct
11 me if I'm wrong -- if some of the vendors might
12 look not just at amounts, what comes in, what
13 comes out, what's left over, but where the money
14 is spent. How is that information used?

15 So those are things that give me pause
16 and make me worry. Obviously disparate impacts
17 is a very important question. I really
18 appreciate the effort that FinRegLab went into to
19 dive into that question. And I would be remiss
20 if I didn't point out that we think disparate
21 impact analysis is a critical tool that we hope
22 will be retained in the broader financial

1 marketplace.

2 I would think it's a fintech friendly
3 tool because it gets at that very question of, is
4 something predictive of credit risk, or is it
5 just a proxy for race or a proxy for
6 disadvantaged populations? And hopefully we all
7 really want to treat people as individuals in
8 their own right. And can they afford to repay
9 the loan and not look at what populations they're
10 a part of?

11 So we support using disparate impact
12 analysis. Obviously, there were limits given
13 what you could do in your analysis that lenders
14 can do more of. But it certainly is a very
15 important question.

16 I'll also note that your study -- I'm
17 sorry to keep pointing to you. But it's the
18 study we have. As I understand it, it didn't
19 look at people who were denied. And we may see
20 very different results there.

21 And that also gets to the question of
22 right now in this early stage, this data is being

1 used on a voluntary basis with consumer
2 permission. But I can see us rapidly moving to
3 the place where it's not so voluntary.

4 And frankly, even today, I think --
5 correct if I'm wrong -- if you want to apply for
6 a Petal card, you have to get permission. Now
7 there's other products that you can choose, and
8 you can choose whether it's worth it for you or
9 not.

10 But eventually, if this becomes much
11 more widely accepted, agreeing is just clicking
12 that I Agree box that you really don't have that
13 much consent over. And so that gets us into the
14 broader questions of how is it going to be used,
15 how it impacts people. How will it impact people
16 who may be denied credit and not just as a second
17 chance score? And so those are much broader
18 questions.

19 And then, of course, I'm sure we
20 probably don't want to dig in today to the
21 broader issue of data aggregators and the privacy
22 issues and security risks and all of that. But

1 of course, it's an elephant in the room because
2 you're giving access to a lot of very personal
3 and powerful data.

4 And we don't know who's going to use
5 it, how they're going to use it, who they're
6 going to sell it to, what will be done with it.
7 I would love to try out all sorts of interesting
8 fintech products, but I just can't bring myself
9 to say yes to those data aggregators, even the
10 ones who I've met with. And I probably know a
11 lot more about them than your average consumer.
12 But it makes me very nervous.

13 So I'm just happy to be part of this
14 conversation and have thoughtful people looking
15 at a lot of these questions. And thank you for
16 having me.

17 MR. ERNST: Great. Thank you. So I'm
18 going to open the floor here in just a second for
19 general observations and questions. Jason, maybe
20 I'll give you a chance to ask the question. I
21 don't know if you want to address that.

22 But before I give you that chance and

1 open the floor, I'll just say if I could give an
2 award for explaining a chart at this table,
3 Kelly, I think you'd get it.

4 (Laughter.)

5 MR. ERNST: I don't know that we've
6 ever had to give such a cogent explanation to
7 such a complicated chart. So thank you for doing
8 that. I'm sure we'll have many questions
9 remaining nonetheless. Jason, do you want to
10 speak to that?

11 MR. GROSS: Sure. And I think that
12 Lauren raised a number of really important
13 issues, and I think that it's a balanced
14 assessment of the different considerations in
15 play. Taking a step back very quickly and then
16 I'll kind of respond to some of the specifics
17 around consumer permission and pricing and use of
18 data, et cetera.

19 Part of our sort of vision for where
20 all of this goes over the long term I think is
21 worth mentioning very briefly. Data aggregation,
22 although in its infancy, is allowing for the free

1 movement, fairly frictionless movement of
2 consumer financial records from provider to
3 provider.

4 More and more, your financial record
5 is the basis for which a provider can serve you
6 will in the financial services marketplace. It
7 is what your bank knows about you. It allows
8 your bank to extend credit to you for the most
9 part, to customize financial products for you or
10 recommendations about how you should manage your
11 financial life. It is similar to your healthcare
12 record, and it is very personal, sensitive
13 information.

14 What we said in Dodd-Frank, Section
15 1033 is that information is the property of the
16 consumer and the consumer should have a
17 reasonable digital access to that information.
18 And so if that information is essential to you
19 receiving well-priced, well-tailored financial
20 services, then you as a consumer must be able to
21 obtain your property and move it from place to
22 place if you want to so that we can have a

1 marketplace with competition and options, et
2 cetera.

3 As this information becomes more
4 available, we now have a very different backdrop
5 upon which we can reimagine something like a
6 credit score. The credit score -- the classic
7 FICO score that we're familiar with is based on
8 the information available at the time to come up
9 with our best metric for someone's likelihood to
10 repay a loan obligation.

11 But in a world where the full set of
12 consumer financial statements are available and
13 we kind of think about the credit report like the
14 liability side of the consumer's balance sheet.
15 But it doesn't have the assets and it doesn't
16 have the cash flows or the income statement.

17 In a world where that full record is
18 available to the consumer to share with the
19 service provider of their choosing, then how can
20 we not create a comprehensive score that looks at
21 the whole thing? And we're talking about some of
22 these very specific, acute examples where

1 consumers have no liabilities. They have only
2 assets and income and they don't qualify under a
3 mainstream credit system, right?

4 But overall, we can make credit
5 decisions more accurate and more inclusive
6 decisions for more people if we look at the full
7 financial picture instead of just one facet. So
8 that's where we think that credit scoring is
9 moving over the long term.

10 So I thought that was an important
11 kind of framing for how we view the topic. And
12 something that Kelly pointed out as well is that
13 the addition of these other financial statements
14 actually increases the predictive power even when
15 folks have a full traditional credit record. So
16 even if you have lots of information about the
17 liabilities, adding the rest increases your
18 predictiveness.

19 To respond to the specific question
20 about whether linking a bank account is required,
21 we've been trying to find the right way to do
22 that vis-a-vis our customer based when we ask for

1 cash flow information. Do you use it as a second
2 chance, for instance, like with UltraFICO?

3 For certain consumers that have no
4 traditional information, we have to ask for
5 something or else there's no way to underwrite
6 them at all. Where we're moving as a firm is
7 towards a system that allows consumers to opt in
8 to sharing more information and then receive
9 benefit for doing so.

10 So if you want to share only your
11 credit report, we're building the ability for you
12 to do that. But we can only underwrite based on
13 the information that we have. And if in addition
14 adding the rest of your financial picture would
15 give us a better view, a view as a potential
16 borrower. And it would better represent your
17 ability to repay the loan. We want to give the
18 consumer the ability to share those records with
19 and then potentially improve their access or
20 improve their pricing to the product.

21 MR. ERNST: Great. Thank you. I'm
22 going to come to the committee members now. And

1 with John in mind, I'm going to start this way
2 and scanning over. Alden and Andrea, I see. Any
3 other hands? I see Raphael and Bob and Jonathan.
4 Okay.

5 MEMBER MINTZ: Thank you. Thank you,
6 guys. This is super interesting and a very
7 important topic. I just want to make sure that
8 as you're thinking through the cash flow analysis
9 and the underwriting particularly with -- I think
10 with the UltraFICO. What I'm hearing is just a
11 reminder that -- again, this is a little bit
12 parochial.

13 But as Bank On stakeholders are
14 bringing in hundreds of thousands to millions of
15 people into accounts where they can't go negative
16 by mutual design, I want to make sure that your
17 standards are inclusive of those accounts and how
18 they're performing in those accounts as opposed
19 to seeing the inability of a negative to
20 therefore be insufficient information for your
21 scoring.

22 MR. ERNST: That's helpful. Thank

1 you. Alden?

2 MEMBER MCDONALD: Thank you very much.
3 This has been very interesting for me because a
4 lot of the techniques that you guys are changing
5 to a digital world we've been using it for the
6 last 30 years to underwrite our customer base.
7 And as I went through the presentation with you
8 guys, a couple of things jumped up.

9 Jason, you first. What is the cost of
10 the interest rate on the card that you're going
11 to be issuing and how are you going to price that
12 out? And what is the history so far that you've
13 found --

14 MR. GROSS: Yeah.

15 MEMBER MCDONALD: -- from the
16 delinquency point of view.

17 MR. GROSS: Yeah. So we use
18 risk-based pricing for the APR on the card. The
19 APR is a range from about 15 percent to around 26
20 percent. So that's roughly in line with the
21 credit card market overall.

22 This product in particular serves the

1 new to credit market. So it's compared to
2 introductory credit products which usually carry
3 subprime interest rates. The card has no fees as
4 well, one of the only no-fee cards in the market.
5 And so when you look at the overall effective
6 cost to the borrower, we think that it's the
7 lowest cost product available to our consumers.

8 And then in terms of performance,
9 while I can't share too much, I can say that
10 we've seen thin file customers underwritten using
11 cash flow data, perform about twice as well as
12 thicker file consumers with the same credit score
13 underwritten using traditional metrics.

14 MEMBER MCDONALD: Going to Kelly, and
15 I wrote down your pass through history for the
16 research. What is it that you're finding for the
17 pass through history and the interest rate that
18 are being charged?

19 MS. COCHRAN: There was a range of
20 price structures on the products that we looked
21 at. Some used a fee-based system. Some use
22 interest rates. So it really varied. And

1 because we looked at each participant company by
2 itself, within that population, we were able to
3 hold the price and the product structure
4 consistent and look within some unit as to how
5 predictive was it.

6 So to Lauren's point about different
7 pricing product structures, that's exactly right.
8 There was a variation. What really strikes us is
9 how consistent the results are across all the
10 participants, whatever those details were. So it
11 really varied.

12 Some of the participants used a
13 default metric. Some used delinquency. It
14 really depended on what their product structure
15 was as to how they were measuring it. And we
16 generally use their measures. We confirmed that
17 they were kind of an objective standard but then
18 looked at whatever they were using in their own
19 underwriting model. So it really was all over
20 the place.

21 MEMBER MCDONALD: Daniel, I do have a
22 question for you, so don't feel left out. In

1 looking at the whole FICO piece, the credit
2 report piece, you're coming up with this new
3 product that is going to give a new credit score.
4 It was interesting to hear you say that an
5 average balance of \$400.

6 That's not going to cover a whole lot
7 of people in the marketplace with negative
8 credit. I can tell you we have 40,000 customers
9 and we have a huge percentage with average
10 balances less than \$250. And so the predictor
11 that you're going to use there you might want to
12 look at again.

13 And in the second part of the question
14 would be that how do you rate a credit that
15 perhaps has a regular 30-day delinquency but yet
16 no sixties and no nineties? Because those are in
17 the individuals who are working day to day, hand
18 to mouth, and how they going to pay.

19 And those individuals are really left
20 out of the cycle. So I would like to sort of
21 suggest to all of you that there's a huge amount
22 of that data out there. And we've been doing

1 cash flow lending utilizing the manual system of
2 which you guys are doing. And I think if you
3 could begin looking at the 30-day chronic
4 delinquencies and have some data on that, that
5 would be very, very helpful.

6 MR. NESTEL: So Alden, both excellent
7 points. To the \$400, we -- I asked this specific
8 question of our data scientists as we presented
9 this. As you know, I'm the government relations
10 guy. Unfortunately, we couldn't have our subject
11 matter expert here today.

12 You make a good point. And the point
13 that they made is we use that -- we kind of put a
14 pin in for \$400. It could've been 300 or 200. I
15 don't want you to be left with the implication
16 that the \$400 is some kind of threshold.

17 We are trying -- what we're hoping to
18 do with consumers is not only is this a slide
19 that shows the results to lenders and encourages
20 them to look deeper in this. But also to help
21 with consumer management issues.

22 We've used the \$400 one because there

1 are significant benefits that we've seen. But to
2 your point, we're acutely aware that not
3 everybody has \$400. And this score can be
4 beneficial.

5 I think -- and even to your point
6 about delinquencies. When I talked about the
7 thin young, I think this slide shows thin young,
8 we're not looking at 30 and 60 days. We're
9 looking at 90-day delinquencies and that in terms
10 of benefits.

11 So there can be significant benefits
12 derived by someone who doesn't have a charge off
13 or a serious delinquency. So to your point on
14 the 30 to 60 days, but both very --

15 MEMBER MCDONALD: And I share all the
16 grievances. One additional piece, if I may, for
17 the FDIC. The FDIC policy for examination drills
18 down into a lot of the data points that we talked
19 about here. I remember years ago there was a
20 Rule 660. It was an automatic classification for
21 consumer credit. That has been changed a little,
22 and it uses it as a guide.

1 In looking at the underwriting based
2 on cash flow, you might want to take a look at
3 what do you have in your examination procedures
4 that will help offset some of the negative
5 guidelines for the financial institutions.

6 Because if you raise those issues, and
7 with this type of information, you may find more
8 community banks that might be willing to lend to
9 the population that we're talking about. Because
10 this has been a deterrent. Because normally
11 those banks are basing their delinquency ratio
12 and they're charge offs and their risk factors.
13 And I think it's a perfect way of encouraging the
14 larger banks or community banks to do more
15 lending in the consumer space.

16 Just as one note, I'd like to speak to
17 you a little bit more, Jason, because we have a
18 credit card that starts at 12.9, fixed rate, not
19 a teaser rate. And we can't seem to find the
20 consumers to really like it the way we would like
21 to encourage them. So this is something that
22 we've been having for a while and maybe we could

1 be a part of your study on that.

2 MR. GROSS: Sure.

3 MR. ERNST: Great. Thank you very
4 much. Andrea?

5 MEMBER LEVERE: Could we get the heat
6 map back up? And by the way, Daniel, 400 is the
7 most popular number in the world because of the
8 study. It's also the most misquoted, erroneously
9 quoted data point. That's what all my Fed
10 friends tell me. So it's not that they don't
11 have the 400. It's how they would get it.

12 So what I was struck by, Kelly, here,
13 first of all, what I'm really interested in is
14 how the research you done is tracking the
15 financial volatility at the household level in a
16 way that deepens our understanding of the
17 implications of that volatility. And also how we
18 think about the volatility now part of labor
19 markets and how that changes how we assess credit
20 and underwriting because it really is
21 transformative in terms of cash flow.

22 So what I want to make the point is

1 there, I don't know if you're familiar with the
2 data point we created called liquid asset poverty
3 which is the data point that actually measures
4 financial insecurity, not just income poverty.
5 And basically it measures the ability of a
6 household to have three months' worth of cash so
7 they can exist at the poverty level if their main
8 source of income is disrupted.

9 What's incredible about that data
10 point, 40 percent of American households are in
11 liquid asset poverty, 51 percent of households of
12 color. And what is interesting is it goes all
13 the way up the income level, right to the fifth
14 quintile in terms of high levels.

15 So when I look at your heat map which
16 goes down to those very high credit scores,
17 right? And you see the same point. So I'm just
18 very interested in how you're looking at -- how
19 does the transformation of our labor markets and
20 your ability to look at it with cash flow help
21 you rethink underwriting?

22 MS. COCHRAN: I think that's a really

1 important question. We didn't have the data to
2 look at that here.

3 MEMBER LEVERE: Yes.

4 MS. COCHRAN: What we had was just the
5 variables that the participants had actually
6 used. We didn't have a picture of their
7 underlying accounts ourselves.

8 MEMBER LEVERE: Yes.

9 MS. COCHRAN: So we couldn't study
10 that kind of question. But I think one of the
11 reasons why this data is so important is it
12 really focuses on income and reserves whereas
13 traditional credit reports, while they are very
14 useful, don't directly --

15 MEMBER LEVERE: Right.

16 MS. COCHRAN: -- reflect that
17 information. And as we see more income
18 volatility, that's usually important. We think
19 that's one of the reasons why it may be spreading
20 more rapidly in small business is because income
21 forecasting on small business is incredibly
22 important. It's incredibly hard to do.

1 MEMBER LEVERE: Right.

2 MS. COCHRAN: It's never been
3 automated very easily. And so we think that
4 there's a range of lenders in that space who are
5 really interested in working with this data
6 because they see the value of it on the income
7 side. And there's also research. I think some
8 of the research this afternoon in the mortgage
9 market suggesting that reserves can be incredibly
10 important.

11 So we are definitely thinking along
12 those same lines. We weren't able to study that
13 question directly here. But we're really
14 interested in continuing to work on that topic.

15 MEMBER LEVERE: That's great. So,
16 Daniel, here's the most important question for
17 this town. Is the schedule of games for the
18 Nationals the right schedule or not?

19 (Laughter.)

20 MS. COCHRAN: No, because I'm going to
21 be out of town.

22 MR. NESTEL: I'll have to put it into

1 our optimization so we can figure that one out.
2 I don't have that one, Andrea.

3 CHAIRMAN MCWILLIAMS: Only after you
4 put the gate.

5 (Laughter.)

6 MEMBER LEVERE: Thank you.

7 MR. ERNST: Let the record show we
8 made it almost to noon before baseball. I've got
9 Rafael, Bob, and Martin.

10 MEMBER BOSTIC: So I had two comments
11 and two questions. The first was to agree with
12 the \$400. That jumped out at me as well. And it
13 would be interesting to see how the chart
14 changed, if you moved it to 300, 200, 100, and to
15 zero just to have a sense of how important
16 picking some kind of average balance is for how
17 we think about access to credit. That would be
18 useful information for all of us.

19 I only had one comment, then Andrea
20 spoke and got me thinking. So this issue about
21 really continued labor force engagement is an
22 important one. So what I've seen consistently is

1 that people in low income neighborhoods and in
2 our neighborhood in particular feel like their
3 attachment to the labor force is more tenuous.

4 And so that puts a constraint. I
5 think you've shown pretty clearly. It puts a
6 constraint on ability to be included in financial
7 markets. And so talking about this is something
8 that is going to be important if we're going to
9 see this expand in a significant way. So trying
10 to make sure that we understand that is
11 important.

12 My questions are really to the whole
13 panel, and they are larger issues about this
14 whole approach. So Jason, you said something
15 very interesting which I had not thought about in
16 terms of Dodd-Frank which is the idea that
17 financial records or consumer financial records
18 are -- I wrote this out because you said it's
19 similar to a healthcare record.

20 And I think about all the protections
21 around healthcare records and the hoops you got
22 to jump through to share that with one doctor let

1 alone a whole system. How do we compare the
2 regulatory infrastructure for financial data with
3 that of the healthcare system? And if there are
4 differences, does that suggest that we may be
5 exposing people in a financial space to different
6 kind of greater risks? And I hadn't thought
7 about it like that. But that's actually an
8 interesting question.

9 And then my second question is really
10 about the operations of the marketplace. So if
11 we're going to allow a potential applicant to opt
12 in for a lender or for a rent payment or for a
13 utility payment, that, I guess, would mean that
14 all the landlords would have to agree to
15 participate and all the lenders would have to
16 agree to participate to share this information.

17 And that seems like a high bar to me.
18 And I know rental markets better than others.
19 But in some markets, what you have are dominated
20 by some national players. So getting a big
21 landlord multifamily company to say, yeah, we'll
22 do it if anyone participates.

1 But the thing about Atlanta or Los
2 Angeles where ownership of rental property is
3 highly distributed and disaggregated, how do you
4 think about participation in that context? And
5 does that requirement then implicitly mean that
6 we're going to have some sort of geographic
7 selection or market-based selection? And to what
8 extent does that translate into just for impact
9 that we actually care about?

10 And so I don't know the answer to the
11 question. But it seems to me that figuring how
12 that's going to work out is going to be something
13 that's really important.

14 MR. ERNST: I'd invite anybody from
15 the panel to respond.

16 MR. NESTEL: I can start. We were
17 very fortunate on a couple of things on security
18 and privacy. We were very fortunate the -- and
19 access. The partner that we have, Finicity, as I
20 said, has been in this space for 20 years doing
21 data aggregation. They're not only a data
22 aggregate. They're also a consumer reporting

1 agency.

2 The way our score works is that it is
3 this information is not going in your credit
4 bureau file. Both Experian and Finicity are
5 consumer reporting agencies. They do have to
6 keep the data for regulatory reasons, dispute
7 resolutions, corrections for some time. But they
8 have added responsibilities being regulated and
9 pretty closely regulated as a consumer reporting
10 agency.

11 So the other thing I just wanted to
12 note is that while we're fortunate because our
13 partner is a trusted partner of thousands of
14 banks. And so we aren't having challenges
15 getting access to the DDA account information.
16 There are efforts being led by not only our
17 partner, a number of banks, consumer advocates to
18 come up with a uniform API standard that would
19 enable -- and perhaps Jason can expound upon this
20 -- but that will enable both banks, consumers,
21 and the lenders themselves one kind of uniform
22 tool that everyone is comfortable with and that

1 has the adequate security around it.

2 So these efforts are going on. And I
3 think we're getting closer and closer to having
4 that where to reference Jason's point that you'll
5 be able to really have a passport where you can
6 take your information and share it when you give
7 permission to others, not just your own bank
8 having that information and do it in a safe way.

9 MS. SAUNDERS: And if I could address
10 the credit reporting issue. Yes, Finicity
11 accepts being a credit reporting agency and
12 follows the Fair Credit Reporting Act. That is
13 not uniformly true among other data aggregators.

14 And if they are not following the Fair
15 Credit Reporting Act, people don't have the same
16 rights to know what information is being used
17 about them, to know if it results in a higher
18 price or they've been denied to correct errors,
19 to get a copy of their report. So those are
20 definitely issues that hang over the broader
21 issue of data aggregation.

22 MR. GROSS: Lauren, that's not my

1 experience with the data aggregators in the
2 market, and we don't work with all of them. So
3 there could be others that you have in mind. But
4 the ones that we've worked with, all are either
5 credit reporting agencies or are compliant with
6 the FCRA for the way that they treat any data
7 that's being supplied to a lender.

8 Because arguably under the FCRA, if
9 you are knowingly providing data that will be
10 used in an underwriting decision, you're
11 transformed into FCRA anyways. Or at least you
12 could make the argument that you have those same
13 obligations.

14 And so all of the data aggregators
15 that I'm aware of that provide data for
16 underwriting meet those same obligations with
17 respect to corrections and copies of the report
18 and all those sorts of things.

19 Now if they're providing data for a
20 non-credit use case, if an aggregator is
21 providing data to power mint.com, for instance,
22 then the same obligations do not necessarily

1 apply.

2 MS. COCHRAN: I might just jump in
3 with a few last thoughts. First of all, on the
4 question about specific expenses like rent or
5 utilities, I think that's one of the reasons why
6 transaction account data is useful because
7 potentially you can pull that information from
8 the transaction account data without having to
9 have every last landlord report.

10 Now transaction account data will tell
11 you what the consumer or small business applicant
12 paid. It doesn't necessarily tell you what they
13 owed. So in some ways, it's not as complete of a
14 source on that expense side as a traditional
15 credit report might be. But it is useful, and
16 that's one of the reasons why I think it's
17 appealing to a lot people in the market right
18 now. So you can get most of that information in
19 one place as opposed to having to have a lot of
20 individual sources feed in.

21 In terms of the aggregation question,
22 a couple of things. This is usually important.

1 Aggregation is spreading very widely. At this
2 point, it's estimated to cover about 95 percent
3 of U.S. deposits.

4 The industry is about 20 years old and
5 has been growing. And it is not only essential
6 for this kind of underwriting, but it is also
7 being used in a huge range of personal financial
8 management wealth advisory activities. It's
9 being used in payments and all sorts of kind of
10 account identification and verification of
11 consumer identity and other purposes.

12 So it's becoming really important to
13 the broader financial system. Not just for
14 underwriting but in other ways. And that's
15 certainly going to be something that we're
16 focusing on. In our last report is what are the
17 practical and regulatory issues arising in that
18 space.

19 There are questions in terms of Fair
20 Credit Reporting Act, Gramm-Leach-Bliley Act.
21 Some of the laws that do apply in the financial
22 services space are a little different than what

1 applies in health. And I think there are a
2 number of questions about is that the right
3 framework as data use and transfer becomes more
4 and more common in the financial services system
5 overall.

6 So there are a number of questions
7 there. There are some self-regulatory efforts
8 and industry working together to try and solve
9 this, especially on the technology side which is
10 encouraging and I think in everyone's best
11 interest.

12 But there are a number of other
13 questions. I think one of the important things
14 is how authorization works and what the applicant
15 understands when they are authorizing access in
16 terms of what's being pulled and what will it be
17 used for. What are the data management practices
18 of the institutions that are involved in both the
19 ultimate end user like the lender as well as the
20 aggregator?

21 So there's a lot to think about in
22 that space. It's a really important question not

1 even just for underwriting.

2 MR. ERNST: Thank you. We have just
3 a handful of minutes left. I'm going to try and
4 get both Bob and Martin into the conversation.
5 Thank you.

6 MEMBER ANNIBALE: Data protection
7 certainly being based in your GDPR, of course, I
8 mean, is incredibly controlling now as to how
9 much you control your own data and privacy. And
10 banks have gone through an enormous amount and
11 all firms and you're trying to protect that.

12 I would just reemphasized the income
13 volatility question. I mean, you can look at
14 things like The Financial Diaries which many of
15 us sponsored Jonathan Morduch and Rachel
16 Schneider who authored that.

17 Young people -- this is not just low
18 income. It's young people. It's many
19 professions, consulting, independent employees,
20 contract workers. It's across that. So we're
21 going to see a lot more volatility, and that's
22 going to show up immediately in the transaction

1 account.

2 The other is for low hanging fruit if
3 anybody ever thinks of it. For anybody who's an
4 immigrant who happens to come from a country
5 where there was credit bureaus, you come here and
6 you're a thin file. I was a thin file being away
7 for 15 years graduate school. But I had a full
8 credit file in the UK.

9 We tried to use the credit files in
10 Mexico here, but one of the agencies or
11 regulators -- I won't point fingers --- but they
12 were concerned you're only picking Mexico. But
13 it was clearly the most relevant in a place like
14 ours. But people don't -- they have a history
15 but you can't track it. So they lost the history
16 when they moved here. That happens to a McKinsey
17 partner coming from London. That happens to a
18 worker, a middle class worker or anybody else.

19 Last thing was overdrafts versus
20 availment of credit lines. Transaction accounts,
21 I really wonder. When you look at the data,
22 you're going to see people going dipping in and

1 out sometimes negative. Sometimes that's a
2 prearranged credit line. So just no different
3 than using a credit card. You can choose to do
4 that.

5 The others might be people going into
6 overdrafts and for a different mechanism. I'm
7 just wondering if you -- I don't know if you
8 should. But would you be able to differentiate
9 those behaviors? And is it pejorative or not,
10 having frequent use of an overdraft? Because one
11 is a credit line. The other is an overdraft.

12 MR. ERNST: Anybody want to take a
13 crack at a response?

14 MR. GROSS: Yeah. I would -- I think
15 it's a great point and on the immigrant market as
16 well. I think I mentioned that one of our
17 cofounders was an international student and then
18 was getting his PhD at MIT and he couldn't
19 qualify for a credit card.

20 And so we certainly see that show up
21 in our customer base quite a bit. We are not
22 able to bring in credit bureau information from

1 other countries, at least not today.

2 But what we can do is generate a score
3 for you after just three months of banking at a
4 U.S.-based institution. So that's a lot faster
5 than the time that it typically takes to ramp up
6 into the traditional credit system. And so we do
7 see a lot of folks with international backgrounds
8 that are a good fit for our product.

9 On the question regarding sort of
10 overdraft versus other forms of credit line. It
11 all depends -- and this kind of goes back to
12 Rafael's point as well. It all depends on what
13 we see, what information is passed through that
14 digital bank statement that we're accessing,
15 right?

16 So what information is in the metadata
17 or sort of the memo line that describes the
18 transaction? And oftentimes with overdraft, you
19 see an overdraft fee clearly labeled. And so we
20 know what that is. For other sorts of products,
21 there could be other labeling.

22 But at the end of the day, these are

1 not being made in a judgmental fashion. The
2 decisions are all being made in a statistical
3 one. And so we would look at that particular tag
4 and the number of instances overall of the
5 historical data that we're analyzing and
6 determine what relationship it ultimately has to
7 someone's likelihood to repay an obligation.

8 I know that's not the most satisfying
9 answer, but that's the way that we would do it.

10 MR. ERNST: And Martin, I think you
11 may get the last opportunity to put a question on
12 the table.

13 MEMBER EAKES: So a couple points.
14 One, I want to make sure that the panelist and
15 others -- thank you for the presentation. I have
16 read the book, Shoshana Zuboff's Surveillance
17 Capitalism. You heard of it or read it? If you
18 haven't read it, I think it's the most important
19 single book in the last two or three years.

20 It's a Harvard business school
21 professor, 1,200 pages, 400 pages of footnotes.
22 And it talks about basically how the financial

1 sector has ripped off people's data. So using
2 Google and Facebook in particular, taking -- and
3 so it is really terrifying to read it and it's
4 very well documented. I think it's -- if you
5 haven't read it, then you're on the border of
6 malpractice in the jobs that you're in, I would
7 say.

8 Secondly, I want to frame a little bit
9 from this committee. Over the last 12 years,
10 we've talked a lot about serving low income
11 individuals and said that we can't really expect
12 a banking sector or banks to scale a program
13 either of safe accounts for deposit transactions
14 or small-dollar loans unless it can at least
15 break even.

16 So what that meant for us was small
17 account balances that we had to drive cost down,
18 whether it was figuring out how you have branches
19 be more effective, whether you have algorithms.
20 So this is all a prelude to saying I actually do
21 believe that algorithms are important.

22 But as soon as I say that, I would say

1 that just listening here that we need a whole
2 hell of a lot more humility than what I heard.
3 If you've been four years and you got data, you
4 can't tell me what the default data is going to
5 be over a stream of different periods. You just
6 simply -- your data -- you just can't get there.

7 And when I look at the heat map here,
8 what I see is just that the two different grids
9 don't match. It doesn't tell you anything about
10 reliability necessarily. It just says that
11 they're different. Because you can go down the
12 charts and they're just -- they don't go linearly
13 up or down on any single row or any single
14 column.

15 So to me, the question that Lauren
16 raised are really going to be the exact question
17 is, what's going to be the transparency? What
18 commitment are you going to have, not just that
19 you can assert to us, that we have reliability,
20 that you get the same test over and over, that
21 you have predictability, and that you have fair
22 lending?

1 I don't believe it until I see it. So
2 when I hear a number that 70 percent of the
3 people's scores went up, well, that's great. But
4 I usually care about the bottom 30 percent that
5 went down. And I don't even care if they go down
6 if it's accurately predicting what the actual
7 risk will be.

8 But most of the fintechs and folks
9 that I see who are talking about new scoring do
10 not provide any transparency whatsoever. The
11 amount of difficulty I've had trying to just get
12 what is the median FICO score or the median
13 credit score for African American borrowers.
14 Nobody wants to report it because they know it's
15 disparate from what it is for white.

16 So transparency of what you would do,
17 I just would love to hear what'd you say. When I
18 hear people talk about opt-in, my whole question
19 having dealt with subprime mortgage loans and
20 single premium credit insurance, opt-in is truly
21 a language without more that is a refuge for
22 scoundrels. And I'm not saying you're the

1 scoundrel. I'm just saying that language is not
2 sufficient by a long shot.

3 The question is how do you opt out?
4 How do you get out of -- if I've shared my data
5 from Self-Help Credit Union to you and you have
6 shared it with somebody that I don't even know
7 about, how do I get it back? How does my member
8 or customer -- in European terms, it's, how do
9 you have a right to be forgotten? How do you
10 clear out the crap that's inaccurate and wrong
11 when there's no regulation in this sector of data
12 sharing virtually whatsoever?

13 So opt-out, I just would love to hear
14 you talk just about algorithms and the dangers
15 that come from it. And how do you opt out of
16 getting the data back? Because digital data once
17 shared is really hard to get it back. So what do
18 you have as safeguards? How can you prevent my
19 doomsday scenario which I predict will happen if
20 we don't have regulation to control it?

21 MR. GROSS: I'll jump in with a few
22 things and then we'll let others respond as well

1 because I think there were a number of different
2 topics that were touched on there.

3 So first of all, just to maybe help to
4 alleviate some of the concern, we're talking
5 about making statistical determinations based on
6 financial data inputs into a model. That's done
7 at every single financial institution that I'm
8 aware of using the exact same methods that we are
9 using and that the other lenders that we've
10 discussed are using.

11 This is a question of using different
12 inputs into the model. And those inputs are --
13 for the most part, that we're discussing DDA
14 information that comes straight from the system
15 of record of a financial institution in most
16 cases, right?

17 We're not talking about black box
18 machine learning techniques which is certainly
19 something that folks need to be aware of and that
20 folks need to understand. These are transparent
21 models. We understand what goes in. We
22 understand how the decision was made, what

1 factors went into the decision. And then we can
2 provide that transparency to the consumer --

3 MEMBER EAKES: But --

4 MR. GROSS: -- on the other side.

5 MEMBER EAKES: -- it's proprietary,
6 right? You're not publishing it. It's not peer
7 reviewed. It's not --

8 MR. GROSS: Well, every proprietary
9 model inside of a lender is not peer reviewed or
10 --

11 MEMBER BOSTIC: But I don't think
12 that's the issue. So I think about the Great
13 Recession, and we had a bunch of models of how
14 risk was going to be distributed for these new
15 products. And they were wrong. And they were
16 horribly wrong. And I think Martin's point is
17 that risk certainly exists here because we don't
18 have time to go through any kind of business
19 cycle. We don't have time to go through any kind
20 of perturbations, even minor ones in labor
21 market.

22 And so we should be -- I think his

1 admonition is we should be cautious because given
2 that reality, you heard it going around the
3 table. All the wealth that was lost in African
4 American communities because we were wrong in
5 that estimation.

6 And I think Martin is just saying I
7 don't want to see that happen again. And the way
8 we prevent that from happening is by taking baby
9 steps before we run all the way in.

10 MR. NESTEL: Martin, as you know, FICO
11 can put compelling research forward. But our
12 customers are credit unions, the community banks,
13 medium-sized banks, and the lenders. And they're
14 not going to take our word for it. The whole
15 reason for pilots -- and as you know, banks are
16 very cautious in introducing new products. They
17 are going to kick the tires on every assertion
18 that we make and then double down and scrutinize
19 it further.

20 So we're not designing the model for
21 our personal use. We're doing it because we know
22 that our customers are going to scrutinize it

1 even further. And hopefully we'll be able to
2 share more insights as we get out of the pilot
3 phase. But we hear you. And certainly I think
4 our customers and the banks are going to really
5 scrutinize how this -- what this impacts are,
6 what the benefits are. And perhaps if they find
7 that there are challenges, we certainly will hear
8 about it.

9 MR. GROSS: Yeah. This is being done
10 very much in baby steps, and it is nascent.
11 We're one of the few examples up here of anyone
12 experimenting with these approaches. But the
13 results so far have been very interesting. And
14 so we think it's important for folks to be aware
15 of them.

16 There is quite a bit of history
17 associated with using residual income based
18 underwriting models over many, many years and
19 many credit cycles. And so this is not without
20 precedent either.

21 I've heard of a lot of different
22 approaches, some being used in the third world

1 and other countries where there's less
2 traditional credit infrastructure where
3 completely exotic data sets are being used that
4 have little relation to your financial position,
5 your social media data or the battery on your
6 cell phone.

7 And I think that there's an even
8 degree of skepticism that we should apply when
9 looking at those sorts of data sets. But in this
10 case, it really is more about bringing down cost
11 so that we can serve folks that are otherwise
12 excluded from the system.

13 We are automating underwriting
14 techniques that are being used in a manual
15 fashion every single day today to underwrite
16 mortgages and small business loans, et cetera. I
17 think that's really what's at the core of this,
18 and it's all about how we get the data for that
19 automated process.

20 One more thing that I would add
21 regarding opt-in versus opt-out as well because I
22 know that was another part of your question. For

1 our model at least, and I can just kind of speak
2 to our experience, the opt-in requires you to
3 authenticate through your bank. So it's not as
4 simple as kind of the click wrap sort of thing.
5 It actually introduces quite a bit of friction.
6 And then the opt-out is a simple click, and then
7 you have severed the connection.

8 Now if you submit certain information
9 for use in a credit underwriting decision, of
10 course, there are rules about keeping that
11 information on file for a certain amount of time.
12 But those are regulatory requirements.

13 MEMBER EAKES: Regulatory by whom?
14 You're not a bank, right?

15 MR. GROSS: We work with a bank.
16 That's the issuer of the card. And so we are a
17 critical third party vendor to an FDIC regulated
18 financial institution subject to all the same --

19 MEMBER EAKES: Do you override any --

20 MR. GROSS: -- regulations.

21 MEMBER EAKES: -- state consumer
22 protection laws with that bank's charter?

1 MR. GROSS: Sorry?

2 MEMBER EAKES: Do you override any
3 state level consumer protections?

4 MR. GROSS: The bank charter is
5 subject to federal preemption, so --

6 MEMBER EAKES: Do you utilize it?

7 MR. GROSS: The bank is the owner of
8 the account.

9 MEMBER EAKES: Would you be out of
10 compliance in any state if you did not have this
11 state preemption by federal charter?

12 MR. GROSS: I don't know the answer to
13 that.

14 MS. COCHRAN: I might have a few
15 thoughts. Is there time, or --

16 MR. ERNST: I think probably we are
17 out of time and well into the lunch period. We
18 won't answer every question fully that's been
19 addressed at this table. But we'll have an
20 opportunity at lunch for members of the committee
21 and panelists who can join us. So I probably
22 need to wrap up and thank everyone for the

1 participation and the robust conversation we've
2 had. Thank you very much.

3 (Applause.)

4 (Whereupon, the above-entitled matter
5 went off the record at 12:11 p.m. and resumed at
6 1:23 p.m.)

7 MR. MILLER: So to moderate this next
8 panel on mortgage market trends, Mark Pearce, the
9 director of the Division of Deposit and Consumer
10 Protection.

11 MR. PEARCE: You're turning it over to
12 me?

13 MR. MILLER: I am.

14 MR. PEARCE: No long introduction? So
15 thanks, everyone. Good afternoon. I've got a
16 pretty easy task moderating this panel. I think
17 as we were going around this morning, I think
18 there are only four former officials from HUD
19 here with us today to talk about housing markets
20 and mortgage markets.

21 I think in the comments this morning,
22 I noted seven of you talked about mortgage or

1 affordable housing in your comments. So some of
2 the issues that were brought up earlier around
3 disparities in home ownership rates for whites
4 versus African-American households and Latino
5 households was raised. Talking about having
6 liquidity, post-closing liquidity was a topic
7 that came up and some of the transitions in the
8 mortgage market in general.

9 All three of those issues came up, and
10 we've got three experts here. And they're going
11 to answer all your questions. Well, maybe not
12 all your questions, but they're going to present
13 some of their research.

14 And we're going to take John's advice
15 and go in reverse alphabetical order. So we're
16 going to start --

17 (Off mic comments.)

18 MR. PEARCE: It actually just happened
19 that way, but Ryan Goodstein, who is a researcher
20 here at the FDIC, will talk a little bit about
21 insights from the 2018 HMDA data. We have
22 Lariece Brown from Freddie Mac to talk a little

1 bit about transition rates among rental -- from
2 rental to home ownership for African-American
3 households; and Kanav Bhagat, who's here from
4 JPMorgan Chase Institute to talk a little bit
5 about post-closing liquidity and the importance
6 of that for sustainable home ownership.

7 And with that, I'll turn it over to
8 Ryan.

9 MR. GOODSTEIN: All right. Thank you,
10 Mark.

11 So while I'm waiting for the slides to
12 come up, I'll just say thanks, I'm pleased to be
13 here today to talk to you about what's happening
14 in mortgage markets.

15 That's me who's supposed to be moving
16 the slides. Okay. All right.

17 So I have about 10 minutes, so rather
18 than covering everything, I'm just going to focus
19 on a few topics that I think will be of
20 particular interest to this group. Specifically,
21 I'm going to discuss the increasing role of
22 non-banks in the mortgage market and how this has

1 impacted consumers as far as access to mortgage
2 credit.

3 So one of the biggest stories in
4 mortgage markets over the past decade or so is
5 the growth of non-bank lenders. So this -- the
6 chart on the left here, we'll start with that
7 one. This is a look at all single family
8 residential mortgage originations. If you look
9 at the red line, that shows the share of
10 originations made by non-bank lenders.

11 As you can see, non-banks had more
12 than half of originations in 2018. That's about
13 -- you know, about 56 percent. That's more than
14 twice the share they had following the crisis in
15 the 2008, 2009, 2010 period, and it's even higher
16 than the share they had in the pre-crisis period.

17 Another thing this chart shows very
18 clearly that -- is that as non-bank share has
19 increased, the decline in bank share has occurred
20 disproportionately among the largest banks. So
21 that's the blue line, the dark blue line in the
22 chart.

1 As you can see, the share of the loans
2 by the largest banks has fallen sharply. It's
3 about 37 percent in 2010. That's down to about
4 13 percent in 2018.

5 And in contrast, the share of loans
6 made by other banks has not fallen nearly as far.
7 That's the light blue line there. And in fact,
8 I'm not showing it here, but if you look just at
9 community banks or very small -- or smaller
10 banks, the share is essentially flat over this
11 period.

12 There's a lot of explanations for why
13 these trends have occurred, and, you know, I'm
14 happy to talk more about that in the discussion
15 period. But for now I'm just going to highlight
16 a second important point, which is that the
17 non-bank share growth has differed substantially
18 across markets.

19 So on the right, the chart shows
20 shares of government lending. Non-banks are the
21 dominant player in this market now. So three out
22 of every four government loans is made by a

1 non-bank. Large banks, on the other hand, have
2 really pulled back from making government loans.
3 Less than 10 percent of government loans were
4 made by the largest banks in 2018.

5 And of course, you recall that
6 government loans include, you know, things like
7 FHA loans and VA loans. These are often taken up
8 by first-time home buyers or other segments of
9 the population that have lower levels of wealth,
10 or, you know, because they offer -- they allow a
11 lower down payment, right?

12 So the fact that non-banks differ from
13 banks in the markets that they serve means that
14 the characteristics of their borrowers also
15 differ. So this -- these -- this basically shows
16 the distribution of loans across different
17 borrower characteristics. So just focusing on
18 the top three bars, the red bar says that
19 basically 31 percent of loans by non-banks went
20 to low and moderate-income, or LMI, borrowers.

21 In comparison, only about 22 percent
22 of loans by the biggest banks went to LMI

1 borrowers. Similarly, you can see loans to
2 properties in LMI tracts or to black and Hispanic
3 borrowers are disproportionately made by
4 non-banks.

5 And so overall, the data suggests that
6 non-bank lenders are filling a gap in access to
7 mortgage credit by making loans to borrowers that
8 some banks, particularly some large banks, seem
9 less willing to serve, so for example, borrowers
10 with less than pristine credit scores. So that's
11 what these charts will show you.

12 Many of you or some of you may not
13 have seen charts like these. Let me just sort of
14 walk through how to understand them.

15 So if you just focus on the top line,
16 this is a look at the credit score distribution
17 for on all single family residential
18 originations. And the white line in the middle
19 of that red bar there, that's the median credit
20 score among non-bank loans. That's 717. That's
21 what the median credit score on non-bank loan was
22 in 2018.

1 The box shows the range from the 25th
2 to 75th percentile, so from about 670 to 765, and
3 then the whiskers, those are the little lines at
4 the end, they show the values at the 10th and
5 90th percentile. So for non-banks, this ranges
6 from 636 to 792.

7 And so if you compare non-banks to
8 banks, you know, especially large banks, you can
9 see that the credit score distributions are
10 substantially lower, right? So for example, the
11 largest banks, the median credit score is 755, so
12 about 40 points higher than for non-banks.

13 And so of course much of the
14 difference in these credit score distributions
15 ties back to the differences in the markets that
16 these lenders are serving, right? So the bottom
17 chart shows -- it's essentially the same chart,
18 but now it's just limited to a more homogenous
19 market. This is the market for single family
20 residential conforming purchase. These are loans
21 that are eligible for sale to the GSEs. And you
22 can see the differences are much less

1 substantial, right?

2 I'm just showing one aspect of credit
3 risk here, you know, the actual credit score.
4 There are of course other elements of credit
5 risk. So for example, DTI, LTV, and you see
6 similar patterns, you know, for those types of
7 measures.

8 Okay. So let me just shift now away
9 from the focus on non-banks versus banks and
10 discuss a broader trend in the overall mortgage
11 market, which is that we've seen an expansion of
12 credit availability in recent years. So these
13 are charts all based on HMDA, all on single
14 family residential purchase originations.

15 The chart in the upper left, this
16 shows basically the share of loans to LMI
17 borrowers and LMI tracts over time. You can see
18 it's been increasing. On the upper right, you
19 see the share of loans to black and Hispanic
20 borrowers has also been increasing. Denial rates
21 have been falling steadily. That's what you can
22 see in the bottom left there.

1 And I should pause here. I'm an
2 economist, so I sort of -- I have to have at
3 least one caveat per, you know, few slides.
4 That's part of my nature.

5 So I'll just note that, you know,
6 these trends, these reflect not only changes in
7 supply of mortgage credit but also demand, right?
8 So these are just raw trends. I'm not
9 controlling for differences in borrower
10 characteristics. That -- you know, that of
11 course could be driving some of what we're seeing
12 here. But in general, I would say that these are
13 suggestive that credit availability has been
14 expanding.

15 The chart on the lower right, this
16 shows the share of single family residential
17 purchase with rate spread above either 1.5
18 percent or 2.5 percent. So you can think of rate
19 spread as an indicator of risk on the loan. So
20 under Reg. -- the Truth in Lending Act, Reg. Z,
21 higher priced loans are defined as those with
22 rate spread of 1.5 percent or higher.

1 You can see that's been increasing.
2 That's the solid blue line. And I'll note that
3 these are really -- it's really most of the
4 action here is in the government loan market.
5 That's where we're seeing these increases.

6 CHAIRMAN MCWILLIAMS: Are these HOPA
7 loans? You're talking about HOPA loans?

8 MR. GOODSTEIN: These are not HOPA
9 loans. These are something different, just --
10 they're called higher priced loans under --

11 CHAIRMAN MCWILLIAMS: Just higher
12 priced on --

13 MR. GOODSTEIN: Yeah.

14 CHAIRMAN MCWILLIAMS: -- Reg. Z.

15 MR. GOODSTEIN: Right. So I wanted to
16 put not only the share that are higher priced but
17 also another measure of risk which is, you know,
18 I could have picked any number, but here I'm just
19 showing 2.5 percent rate spread. That's the
20 dotted blue line.

21 So it's worth noting that, you know,
22 so although the share of higher priced loans has

1 gone up, a lot of the action is really close to
2 this threshold. More deeply higher priced loans,
3 if you think of these sort of larger rate spreads
4 the incidents of those loans have not been
5 increasing. You know, less than 1 percent of
6 loans in 2018 had a rate spread of 2.5 percent or
7 more.

8 Thinking back to the pre-crisis
9 period, it's hard to compare this directly
10 because of differences in measurement, but just
11 for reference, you know, about 25 percent of
12 loans in 2005 and '06 were kind of classified as
13 higher priced, and about half of those were
14 deeply higher priced. So this does not look like
15 what things looked like in the crisis.

16 And continuing on the same theme -- so
17 it's important to keep in mind that while it
18 looks like credit availability has been
19 expanding, we're talking about an expansion from
20 historically tight levels of underwriting.

21 And it's worth emphasizing that the
22 level of risk in the market now doesn't look like

1 -- you know, doesn't -- things don't look now
2 like what they looked like in the crisis, right?
3 So this is just one example to support that.

4 This is a chart from the -- using data
5 from the New York Fed Consumer Credit panel. It
6 shows the distribution of credit score at
7 mortgage origination, you know, on originations
8 back to 2003. And so if you look -- let's just
9 focus on the median. That's the green line.

10 You can see that credit scores have
11 declined in the last few years compared to, you
12 know, 2010, '11, '12. But the median credit
13 score is still substantially higher now than it
14 was, you know, in the run up to the crisis, about
15 50 points higher.

16 And at the lower end of at the 10th
17 percentile, the credit score is about 70 points
18 higher in 2018 than it was in the 2005, 2006
19 period.

20 Another item worth pointing out is
21 that the actual loan products themselves look
22 different now compared to what they looked like

1 during the crisis. So again, I'm borrowing
2 another chart here. This one is from the CFPB.
3 It shows the incidents of loans with risky
4 features.

5 So it shows that, for example, about
6 20 percent of loans originated in 2005 and '06
7 had less than full documentation. That's the
8 dotted yellow line. About 15 percent of loans
9 allowed interest only or negative amortization
10 payments. These loan features, as I'm sure you
11 know, were associated with elevated risk of
12 default during the crisis. Almost all loans made
13 now, you know, don't -- you know, these features
14 are absent from loans being made now, right?

15 So the takeaway I want to leave you
16 with is that, you know, while credit availability
17 has been expanding recently, the pool of
18 borrowers getting loans is still relatively of
19 low risk by historical standards.

20 Underwriting practices generally
21 appear to be sound, and lenders -- you know,
22 basically the loan products don't have these

1 risky features baked into them as they did during
2 the -- in the run up to the crisis.

3 So let me just wrap up. Again,
4 non-bank lender share has been increasing
5 dramatically in part because they're filling a
6 gap in access to mortgage credit. And
7 underwriting standards are loosening, but you
8 know, this is not a return to pre-crisis, at
9 least not yet.

10 To state an obvious point, you know,
11 continued monitoring of the mortgage market is
12 critical, right? It's important to really keep
13 an eye on things to see how much mortgage credit
14 will continue to expand, how much will loan
15 performance deteriorate.

16 I mean, right now, performance looks
17 good, particularly on conventional loans by
18 historical standards. We're in a good economic
19 period, so how will things evolve, you know, when
20 we hit the next recession.

21 So I will stop there.

22 MR. PEARCE: Hand the baton to

1 Lariece.

2 MS. BROWN: Thank you. I want to
3 spend just a few moments talking about what the
4 minority home ownership gap has been looking like
5 since the crisis.

6 So we've spent -- we've seen a lot of
7 papers that have talked about during the crisis,
8 the loss in wealth due to foreclosures and some
9 of the lending practices that have taken place
10 during that time. Now we're looking at are we
11 seeing recovery. And when we look at the
12 recovery, who do we -- who are we able to observe
13 a recovery for and who might be lagging in that
14 recovery.

15 So this is some of the research that
16 we're doing now, but I'll start off with some --
17 a little background information for us. The --
18 first off, the home ownership rate chart here,
19 this is probably one that you've seen before.
20 It's public data.

21 When you take a look at the home
22 ownership rate, in 2019, overall the home

1 ownership rate was -- is at 64 percent. What I'm
2 showing here in the top time series is the
3 non-Hispanic white home ownership rate and then
4 for blacks in the lighter blue down below and for
5 Hispanics in the orange-ish red color.

6 And one of the disturbing things we're
7 noticing -- I have circled there -- is a
8 divergence in home ownership rates post crisis.
9 That's one of the things we want to take a closer
10 look at with the data that we have available to
11 us. In particular, the black/white home
12 ownership rate gap is now at 30 percentage
13 points, and Hispanics are 26 percentage points
14 less likely than whites to actually own a home in
15 2019.

16 And what -- the other thing I have
17 circled there is that the story for blacks is
18 even more dire in that the home ownership rate
19 for blacks is actually declining while the home
20 ownership rate for Hispanics is actually
21 increasing in the most recent years.

22 Okay. A few -- a couple of other

1 research studies that have come out looking at
2 this post-crisis period include Acolin, Lin, and
3 Wachter. This particular paper looks at what are
4 the main factors that seem to be able to explain
5 the home ownership gap, the home ownership rate
6 gap kind of pre-crisis leading right up to the
7 recession and then post recession.

8 And one of the main things that we see
9 in this work, they talk about endowment, that
10 endowment measure that Wachter, Lin, and Acolin
11 come up with is this idea of permanent income,
12 where the permanent income that they measure
13 includes all of the factors that you might want
14 to consider such as education, age, gender,
15 marital status, and other family attributes and
16 as well as kind of access to funds based on their
17 location and parental wealth.

18 When they look at all of those
19 potential explanatory variables, they're finding
20 that when they decompose how much they're able to
21 explain versus what's left in the residual, the
22 residual portion is actually increasing in the

1 post-crisis period.

2 The residual in their situation is
3 maybe dominated by credit factors. They're not
4 able to observe the actual credit profile of the
5 consumers that they're looking at. But it's
6 still a pretty interesting tell there.

7 Another paper put out by the Urban
8 Institute this year, which Choi is the author,
9 does a similar thing where they actually are now
10 able to bring in credit attributes and look at
11 the MSA level credit attributes as well as what
12 may be driving the home ownership rate gap across
13 different MSAs.

14 And again, they're finding that they
15 have a residual; it's very similar to what
16 Wachter, Lin, and Acolin find, and they say, you
17 know, basically 17 percent explained in the 2017
18 data. But, you know, they do find that things
19 like family -- things that may drive demand such
20 as marital status, age, and so forth are very
21 major determinants of whether or not someone will
22 -- is a homeowner when we observe them in the

1 2017 data.

2 Let me turn to our work a little bit
3 here now. What we've decided to do is with all
4 of the information about home ownership rates and
5 kind of the static that -- that we see, we wanted
6 to understand could we -- we wanted to see if we
7 could start to disentangle what is going on post
8 crisis.

9 So one measure that we could -- that
10 we decided to come up with is, well, who's
11 actually transitioning into home ownership in the
12 post-crisis period. This is one piece of our
13 research. You can certainly ask other questions
14 about what the -- what other aspects of recovery
15 you may want to measure.

16 In this particular measure, what we do
17 is we have a random sample of 5.8 credit visible
18 consumers and an additional 8.9 million consumers
19 who are in the household with those consumers in
20 2016. For all of them, we have information about
21 their detailed credit profile, including
22 foreclosures, the amount of debt held,

1 delinquencies, charge-offs, bankruptcies,
2 inquiries, DTI, and of course credit scores as
3 well as whether or not they're thin file which
4 becomes pretty interesting as well.

5 We use that, and we are able to look
6 at transition from 2012 through 2018 into a
7 mortgage situation which we proxy for one aspect
8 of potential recovery during this time period.

9 Okay. And the top chart, what we are
10 looking at here are the people -- what percent of
11 the people who did not have a mortgage when we
12 look at the data in 2012, which -- what percent
13 of them actually observe -- are observed with a
14 mortgage by 2018. So that's the measure there.
15 And you can see the differences in transition
16 rates as we look at those percentages.

17 New mortgage holders in 2018 as a
18 share of non-mortgage holders in 2018, we look at
19 the gap in the transition rate for
20 African-Americans, for instance, is the 5.8
21 percent. While delinquencies and foreclosures
22 are down, we believe the new transition -- this

1 new mortgage transition is an important metric
2 for this time period.

3 We analyze the extent to which racial
4 difference and individual characteristics
5 contribute to the white/black and the
6 white/Hispanic gap in the transition rate to new
7 mortgage ownership.

8 We find that -- so to talk about the
9 second chart here, we find that age, income,
10 unemployment, and housing demand are big drivers
11 for determining who acquires a new mortgage.

12 Consumers with no credit score or
13 insufficient credit histories are less likely to
14 transition, of course. Student loan debt,
15 gender, and education level matter, but they
16 actually play a lesser role in explaining the
17 transition. And in this situation, blacks and
18 Hispanics are one-half and two-thirds as likely
19 to transition into mortgage ownership compared to
20 non-Hispanic whites, respectively.

21 Okay. In this chart, again, we're
22 decomposing the factors that explain now the

1 transition to mortgage ownership, which we used a
2 proxy for a new homeowner. We do some test by
3 age and so forth to make that more robust going
4 forward.

5 But in this situation, you see that
6 for the black/white gap, we're able to explain 66
7 percent with the various credit attributes as
8 well as macroeconomic factors in the geographies
9 that they live in. And a very -- you can't even
10 see the tiny sliver of socioeconomic demographic
11 information that's included there, which matters.

12 For the Hispanic to white gap, we do
13 explain a little bit more, substantially more, 79
14 percent with the factors that we're able to
15 control for in our analysis. I'm going to break
16 that down just a little bit to talk about what
17 specific factors matter and how they matter.

18 Okay. It turns out that individual
19 demographics, when we look at the distribution of
20 individual demographics, which includes things
21 like age, female headed households, and so forth,
22 that is actually decreasing.

1 If we look at the differences in the
2 distribution between blacks and whites and
3 Hispanics and whites, those factors are actually
4 decreasing the gap in transitioning. In our time
5 -- in the data that we observed, we're actually
6 seeing that the older millennials are indeed
7 transitioning into home ownership in this -- at
8 the highest rate for this particular time period.
9 So again, this is different from just looking at
10 the home ownership rate and looking at who our
11 new homeowners are.

12 Okay. Of course, credit worthiness or
13 credit factors or attributes are lumped together,
14 and that explains, again, the more than 60
15 percent for the white/Hispanic gap. Some people
16 were surprised to see it being that large for the
17 white/Hispanic gap, and then 49 percent for the
18 white/black gap. Okay. And the chart that I
19 showed you before is basically combining all of
20 this information into one picture.

21 Geography is different. So geography
22 in this situation includes two primary macro

1 variables: house prices and unemployment. And
2 what we're finding is for Hispanics, they -- the
3 mortgage-ready Hispanics in our data tend to be
4 concentrated in higher-cost markets, and that's
5 driving a lot of the difference in the
6 Hispanic/white gap that we're observing in
7 transition rates.

8 Okay. Since we -- after taking a look
9 at the role of geography, we decided to do a
10 little bit of additional disaggregation in
11 geography and look within these metropolitan
12 areas. I -- we have a lot more in the actual
13 paper, and we can tell where -- everyone where
14 the paper is located.

15 But for today, just a few key markets
16 that we wanted to show you to demonstrate that
17 the impact of these different factors does vary
18 by geography. Okay?

19 So for instance, when we look at this
20 -- all this picture here is for the white/black
21 transition gap. And you can see in each of these
22 situations, the lighter blue bar is what we saw

1 when we just did that national. That's the same
2 result that was in the prior slide when we just
3 look at the national result.

4 And now the darker blue bar is when we
5 look within -- when we do it by -- for just that
6 geography and look at what are the main
7 determinants of the transition rate gap for just
8 that particular geography.

9 Okay. And unequal -- and you can see
10 kind of a few different cases here. Florida down
11 in the far right looks very much, very similar to
12 the national picture while California and New
13 York -- we're surprised by California.

14 In California, you do get geography
15 mattering more for African-Americans for the
16 black/white gap there. But in New York, that was
17 one of our starkest differences there compared to
18 the national picture. House prices -- so there -
19 - it could be a factor of segregation within the
20 state or blacks living in different urban pockets
21 or cities that are more expensive when they're
22 pursuing home ownership potentially.

1 Mississippi, completely different
2 story. Mississippi is a scenario where we
3 actually have unequal unemployment. I have the
4 numbers for that somewhere. For Mississippi, the
5 mean unemployment rate for blacks is 9.8 percent.
6 And this is just 2018, as a matter of fact, and
7 8.6 percent for whites. High across the state
8 compared to the national average, but even higher
9 for African-Americans in that state. And so
10 that's the -- kind of the driver for that -- for
11 the Mississippi picture.

12 For Hispanics, again, we see variation
13 across markets in what is explaining the gap. So
14 this -- if you have interest in some local policy
15 makers or people thinking about those local
16 effects. In Illinois, I provide that example
17 because there, again, the lighter bar is the
18 national picture. The darker bar is for that
19 particular state.

20 When we look at Illinois, for
21 instance, the geography piece looks very similar
22 to their national story. But the impact of the

1 credit factors is very different in Illinois for
2 explaining the Hispanic/white gap when we look at
3 that picture.

4 In New York, we do still see that the
5 credit factor portion is a little lower while the
6 geography piece is now higher, again, likely due
7 to house price differentials. New Jersey is
8 provided there. We have -- I think we were
9 looking at some of the differences in the
10 demographics, wanted to have a contrast, similar
11 to the national picture for New Jersey.

12 Texas was one that was another stark
13 difference that we observed where geography,
14 maybe house prices aren't as dramatically variant
15 for where Hispanics are living within the State
16 of Texas. So that's what we observed there.

17 To summarize, the racial differences
18 in the distribution of credit attributes does
19 explain a large part of the racial gap. In
20 aggregate, while racial differences and household
21 composition contribute significantly and explain
22 the white/black gap, geography matters more in

1 explaining the white/Hispanic gap. However,
2 there is a lot of heterogeneity in the
3 contribution of the factors across different
4 states.

5 You know, we're doing this research,
6 so it would be very natural to ask what is
7 Freddie Mac doing about all of this and how are
8 we thinking about some of these issues. That
9 would be a fair question, so I'll go ahead and
10 start it off now.

11 First, want to point out that we are
12 partnering with Borrower Help Centers. Borrower
13 Help Centers are non-profit -- it's a network of
14 non-profit counseling agencies and other
15 non-profits, CDFIs for instance, with HUD
16 certified counselors providing home ownership
17 preparation and foreclosure prevention services
18 to their clients.

19 Of course, Freddie Mac has for a while
20 now had flexible products for lenders that we
21 want to encourage more lenders to use for -- with
22 their client including our Home Possible and Home

1 One products where the Home Possible product is
2 to meet the home financing needs of the low to
3 moderate income borrower.

4 Home One is relatively new. That's
5 for first-time home buyers to also offer a low
6 down payment option, but it doesn't have the
7 income restrictions or the geography restrictions
8 that Home Possible has. Home Possible has income
9 restrictions or geography restrictions and also
10 offers the down payment, the lower down payment
11 option, the higher LTV option.

12 We're also working with Down Payment
13 Resource and other non-profits to assemble
14 assistance options for consumers to help bridge
15 the gap for the down payment that they need to
16 link up with the actual mortgage products that
17 they're interested in.

18 Okay. As a matter of fact, on our
19 website, we have a link for our Home Possible
20 eligibility tool, and when you go into the tool
21 to try to see if the home and the consumer would
22 be eligible for the Home Possible product, you

1 actually receive a link to Down Payment Resources
2 that may be available in your community.

3 Okay. Freddie Mac has partnered with
4 FHFA and the other GSE to offer Spanish
5 translations of the Fannie Mae and Freddie Mac
6 uniform documents. And the translated documents
7 include Freddie Mac's Your Step-by-Step Mortgage
8 Guide. These documents are available as
9 resources for lenders, servicers, housing
10 counselors that are working directly with their
11 communities.

12 Okay. And of course, we're working
13 with MBA, their members, other research partners
14 to come up with more targeted strategies to
15 expand access to mortgage credit.

16 Thank you.

17 MR. BHAGAT: Okay. Well, first let me
18 just start by saying thank you very much for
19 inviting me and for the interest in our research.

20 Just to spend 30 seconds, the JPMorgan
21 Chase Institute, just in the event people don't
22 know, is an internal research organization. You

1 can think of it as a think tank with a public
2 good mandate.

3 So our goal is to use the
4 administrative data sitting within JPMorgan Chase
5 to do economic research, and our hope is that
6 business leaders, non-profit leaders, and policy
7 makers will find that research useful as an input
8 into their decision-making processes.

9 All of our research is free. It's
10 available on our website. The report that I'm
11 going to talk about today was published back in
12 June. The URL is at the bottom. It's -- there's
13 quite a bit more detail there in case folks are
14 interested.

15 And before I start, I'll just offer
16 this disclaimer. This -- what I'm going to say
17 reflects my views and not necessarily the views
18 of JPMorgan Chase.

19 Okay. So the research question that
20 we wanted to answer or attempt to answer in this
21 piece is what evidence do we have in our data --
22 and I'll talk a bit about what that data are --

1 about the role of liquidity, equity, income
2 level, and payment burden as determinants of
3 mortgage default.

4 And within that research question, we
5 wanted to ask something very specific, which is
6 if we took a new homeowner and at origination
7 apply the treatment of reducing their down
8 payment by a small amount and taking that
9 residual cash and setting it aside in a liquidity
10 account, and we've named it an emergency mortgage
11 reserve account, and keeping that liquidity
12 available in the event of financial distress, how
13 might that impact default rates going forward.

14 And so just to put it -- provide a
15 numerical example, imagine a homeowner that might
16 put 5 percent down. Well, instead of putting
17 that 5 percent down and being left with very
18 little in post-closing liquidity, put down 3
19 percent, take that 2 percent of house price
20 residual, put it aside in this emergency mortgage
21 reserve account.

22 And what we'd like to know is how

1 would that impact default rates relative to a
2 similar cohort of borrowers, so folks with
3 similar credit attributes that might have bought
4 a similar home. What would be that default rate
5 differential?

6 To answer this question, we use a
7 deidentified sample of Chase customers that had
8 both a Chase mortgage and Chase deposit accounts.
9 And I'm going to highlight two findings, and I'll
10 talk about them in quite a bit more detail.

11 First, we found that borrowers with
12 little post-closing liquidity defaulted at
13 considerably higher rates than borrowers with at
14 least three mortgage payment equivalents of
15 post-closing liquidity.

16 Secondly, and this gets at that
17 trade-off between home equity and liquidity, we
18 found that borrowers with little liquidity but
19 more equity defaulted at considerably higher
20 rates than borrowers with more liquidity but less
21 equity. And so from this analysis, we conclude
22 that liquidity may, in fact, be a more important

1 determinant of mortgage default than equity,
2 income level, and payment burden.

3 And so what I'm going to present to
4 you in the pages that follow is really
5 correlation-based evidence. And because it's
6 correlation-based evidence, we come to the first
7 implication, which is a pilot program that
8 essentially took a set of borrowers, again, with
9 similar credit characteristics interested in
10 buying similar homes and applied the treatment
11 that I described before, so a slightly smaller
12 down payment with a liquidity account setup,
13 comparing that to a control group that made the
14 normally sized down payment and didn't have the
15 liquidity account.

16 That type of pilot program might be
17 very instructive in terms of the effectiveness of
18 this type of program. And then secondly, there
19 are some implications for how we think about the
20 impact of total DTI as a default prevention
21 mechanism. And it could be the case that
22 liquidity might be a better measure of the

1 ability to withstand financial volatility.

2 Okay. So that's an overview. If we
3 dive in, as I said, the first finding, borrowers
4 with little post-closing liquidity defaulted at
5 considerably higher rates than borrowers with at
6 least three mortgage payment equivalents of
7 post-closing liquidity.

8 So let me define some terms and talk
9 a bit about the data. So here we used a sample
10 of about 300,000 Chase customers, again that had
11 both a mortgage and deposit accounts. The
12 mortgages were originated between 2012 and 2016.

13 We observed default rates for three
14 years after origination, and we defined default
15 as missing three or more mortgage payments. We
16 also observed the balance in these new
17 homeowners' checking and saving accounts in the
18 month after they closed on their home. So this
19 is our concept of post-closing liquidity.

20 And what we plot here in the line is
21 essentially the default rates for this sample
22 according to how much post-closing liquidity they

1 had. And importantly, we take that balance in
2 their checking and savings account and we
3 normalize it by dividing by their scheduled
4 mortgage payment. So we take the balance in the
5 checking and savings account, and we divide it by
6 principal, plus interest, plus taxes, plus
7 insurance, plus association dues, and so that
8 gives us this concept of liquidity normalized,
9 and we're going to -- I'm going to refer to that
10 as the number of mortgage payment equivalents, or
11 MPEs, of reserves.

12 So on the Y axis of this chart, we're
13 plotting default rates for this group. And on
14 the X axis, we're plotting the number of MPEs
15 that they had in their checking and savings
16 account in the month after closing on their home.
17 And what you notice right away is for the group
18 on the left-hand side, folks that had less than
19 one MPE, the default rates are about five times
20 higher than the folks that had, let's say,
21 between three and four.

22 In addition, you notice as you move to

1 the right in the chart, the marginal benefit of
2 additional liquidity seems fairly small, so
3 default rates don't continue to drop once you get
4 beyond three and four. The blue and green bars
5 tell another interesting story. The blue bars
6 show the share of the sample in that liquidity
7 bin after closing. And the green bars show the
8 share of defaults in that liquidity bin.

9 And so you see right away that while
10 20 percent of our sample at origination was in
11 that first bin, that first bin accounts for over
12 half of our defaults. And so this tells us that
13 liquidity in the month after origination is an
14 important factor in terms of the impact on
15 default.

16 Flip to the next page, we'll see that
17 this relationship persists over the life of the
18 mortgage. So now we've done almost exactly the
19 same analysis, but rather than measuring default
20 rates in the first three years after origination,
21 we take a slice or a snapshot of our servicing
22 data in 2014. So in this case, it's about

1 500,000 Chase customers with both a mortgage and
2 deposit accounts.

3 These mortgages were originated in
4 2009 or later. And now we measure liquidity in
5 January of 2013. So again, it's the same
6 liquidity measure that I mentioned before, and we
7 plot exactly the same thing, default rates in
8 2014.

9 And the pattern persists here. Once
10 again, for the borrowers who, again, over the
11 life of their mortgage are in that left-most
12 bucket with less than one MPE of liquidity, we
13 see default rates are about six times higher than
14 borrowers with between three and four MPEs of
15 liquidity.

16 And again, the marginal impact of more
17 liquidity on default rates seems to flatten out
18 over time. And the disproportionate nature of
19 the first bin is again evident. It makes up
20 about a third of our sample but three quarters of
21 our defaults.

22 Okay. So that's our first finding.

1 Our second finding on Page 5, borrowers with
2 little liquidity but more equity defaulted at
3 considerably higher rates than borrowers with
4 more liquidity but less equity. And so now what
5 I'm doing here is I'm taking that same sample
6 that we just looked at, so the same roughly
7 500,000 borrowers, and we're looking again at
8 2014 default rates.

9 But now we're looking at it in a cross
10 section, and so I'm adding in this concept of
11 equity, and I'm adding it in by observing their
12 LTV on their mortgage, not at origination but in
13 January of 2013. So our observation of their
14 home equity or their LTV is consistent with our
15 observation of their liquidity which is also
16 January 2013.

17 The Y axis is still default rates.
18 And in this instance, we're showing that LTV on
19 the X axis. And in order to see the cross
20 section, we're showing a different line based on
21 liquidity. So the dark blue line at the top is
22 the borrowers with less than on MPE, and then we

1 also show one to two, two to three in the light
2 blue line, which is folks with three to four MPEs
3 of liquidity.

4 And immediately you see right away
5 that there's a significant gap between that dark
6 blue line and all of the other lines, and that's
7 roughly about 3.5 percentage points.

8 Now, I mentioned at the outset this
9 concept of trading equity for liquidity. How are
10 we going to accomplish that? Well, if you think
11 about at origination -- we're going to use the
12 following translation mechanism, which is 1
13 percentage point of house price at current
14 interest rates and at a 95 LTV is about equal to
15 one and a half fully loaded monthly mortgage
16 payments. So again, PITIA.

17 So that means that I could create
18 liquidity by taking a 1 percent of house price
19 smaller down payment, I could create liquidity of
20 about one and a half monthly mortgage payments if
21 I did that exchange at origination.

22 Now, if you remember from the previous

1 chart, we saw that the steep part of that slope
2 was between less than one and three to four. So
3 I'm going to anchor on that, and I'm going to
4 say, well, let's think about exchanging two
5 percentage points of house price, so reducing
6 your down payment by two percentage points of
7 house price and setting that aside in this
8 liquidity account, and that will take us from
9 that less than one bucket into that three to four
10 bucket. And so that's the way that we're going
11 to make this exchange.

12 And so if we use this chart to think
13 about that, what I'm -- what we're actually --
14 the impact of making that trade would be think
15 about taking borrowers out of a particular point
16 on that dark blue line, sliding them two points
17 to the right because their LTV would go up by 2
18 percentage points and then sliding them down from
19 the dark blue line to the light blue line.

20 And you can see right away that while
21 default rates do increase at higher LTV levels,
22 the decrease from adding the additional liquidity

1 is significantly larger.

2 Important, important caveat, I'm not
3 an economist, but just like Ryan, I have a caveat
4 here. This is correlation-based evidence, right?
5 And so the borrowers within each dot and the
6 borrowers on each line are substantially -- could
7 be substantially different, right? Different
8 borrower characteristics. And so -- and that's
9 super important to keep in mind, and I'll talk a
10 little bit about how that might impact our
11 results.

12 So what do we think that -- if I was
13 to try to reproduce this chart but instead of
14 just showing you correlation-based evidence,
15 actually show you the causal version of this
16 chart, what do we think that that would look
17 like? I'm going to split it up, and I'm going to
18 talk about first the impact of lower equity on
19 default, and then I'll talk a bit about the
20 impact of more liquidity on default.

21 So if I think about the first one, if
22 I think about the impact of more equity on

1 default, and that's sliding on the line. That's
2 essentially the slope of that line. We think that
3 the causal version of this chart would actually
4 be a bit flatter.

5 And the reason we think that it would
6 be a bit flatter is, first, borrower credit
7 quality tends to decrease with LTV, so as I move
8 to the right, we're talking about lower FICO
9 scores. Now, if I controlled for that, that
10 would flatten the line, number one.

11 Number two, we also think that lenders
12 use down payment size as a proxy for the
13 borrower's ability to save, and therefore, as a
14 predictor of default risk. However, as you can
15 see from the -- this chart and the previous
16 charts, our data suggests that there's a stronger
17 relationship between liquidity and default than
18 between LTV and default.

19 And I should add a very important
20 point here that for this discussion, we ignore
21 the loss mitigation effects of a larger down
22 payment. Clearly in the event of a foreclosure,

1 having a larger down payment makes a very large
2 difference.

3 So that's how we think the -- so just
4 to summarize, we think that the slope of the
5 causal version of these lines would be a bit
6 flatter. With respect to the impact of
7 additional liquidity on default rates, here we
8 think that -- here we're thinking about the
9 difference in the levels between the lines. Here
10 we think we're probably overstating that impact a
11 bit.

12 And there are three reasons why we
13 think that we're overstating that impact. First,
14 as I talked about before, the borrowers in each
15 point and on each line are different. And so
16 with respect to the preferences of the borrowers
17 on the dark blue line relative to the preferences
18 on the light blue line, there are probably
19 important differences in terms of preferences
20 regarding savings and consumption, and so it's
21 important to keep that in mind.

22 Second reason is that we don't see

1 liquidity. We don't see checking and savings
2 accounts held away from Chase. And while we
3 would like to believe that all of our customers
4 hold all of their liquidity with Chase, we know
5 that that's not the case.

6 If we were to include what I would
7 call unobserved liquidity, we think that the gaps
8 between those lines would shrink slightly, and I
9 can talk about that more during the Q&A if people
10 are interested.

11 And thirdly, we think that one
12 countervailing measure that would actually
13 increase the impact of more liquidity on default
14 rates would be to have some access requirements
15 for this emergency mortgage reserve account. So
16 you could imagine certain hurdles that the
17 borrower would have to cross in order to access
18 that liquidity would actually improve the impact
19 on default.

20 Okay. So one question, natural
21 question would be, look, you just showed me
22 results using this snapshot of servicing in 2014.

1 Why didn't you use the origination sample, so
2 that first sample that I talked about? Why
3 didn't you use that sample to produce these
4 results?

5 And the reason we didn't use that
6 sample to produce the results is because of
7 selection bias. And what I'm showing in the
8 chart here, and I'll just focus really -- let's
9 just focus on the green and blue bars.

10 What I'm showing here is now for both
11 samples, I'm showing you the share of mortgages
12 in those bars at origination. That's the blue
13 bars. And the share of mortgages in each LTV bin
14 in January of 2013, and that's the green bars.

15 And unsurprisingly, at origination,
16 there's this big spike at 80 percent, again not
17 surprising. There are also peaks at 90 and 95
18 and 99 all created by the pricing incentives that
19 are part of mortgage financing, right?

20 And so you get a lower interest rate
21 if you meet a particular LTV hurdle, but there's
22 no additional incentive to go, for example, from

1 making a 20 percent down payment to making a 21
2 percent down payment. And so we see a lot of
3 bunching in our data at origination that also
4 affects the amount of liquidity people have on a
5 post-closing basis.

6 Again, if there's no incentive to put
7 down 21 percent, we'll put down the 20, the 1
8 percent remains in your checking and savings
9 account, and that spikes liquidity at 80 as well.

10 And so for those reasons, when we do
11 this analysis using our origination sample, it's
12 noisy, and it looks like this. So the message is
13 we think consistent -- you have to squint a bit
14 to see it, and the noise creates some of the
15 bumpiness in the data.

16 Okay. In the interest of time, I'm
17 going to skip that slide and just go straight to
18 the implications. So I'm on Page 9.

19 As I've talked about, we're providing
20 what we think is correlation-based evidence about
21 the impact of -- the potential impact of
22 liquidity and improving default rates. A pilot

1 program could test this, right? And so again,
2 you'd set up a treatment and control framework
3 where you had certain folks in the example that I
4 used at the outset put down instead of 5 percent,
5 3 percent, take the residual 2 percent, hold it
6 in this emergency mortgage reserve account, and
7 compare the default rates for that group versus
8 the control group that put down the original 5
9 percent.

10 Importantly, you'd have to think a bit
11 about balancing access versus restrictions,
12 right? And so you could think about at one end,
13 if you make the restrictions too tight, the
14 account loses its value, right? If the borrower
15 can't actually tap into the funds, they're not
16 helpful to the extent that they end up in
17 financial distress.

18 On the other hand, at the other end of
19 the spectrum, probably don't want to give people
20 a debit card associated with that account because
21 you're likely to have less of an impact on
22 reducing default.

1 And then there is a lot of takeaways
2 from behavioral finance that we could use just in
3 terms of naming conventions, setting a target,
4 automatic enrollment, and things of that nature
5 that would probably increase the effectiveness.

6 So maybe I'll stop there.

7 MR. PEARCE: Thank you. We had three
8 great presentations on different aspects of the
9 mortgage market. I know we've got a lot of
10 housing and market -- mortgage market expertise
11 in this room, and so without further ado, I'll
12 just open it up for questions from committee
13 members.

14 We've got about 20 minutes to -- Bob?

15 MEMBER ANNIBALE: Hi. Bob Annibale.
16 Just a quick question on -- it's so informative,
17 all of you. Thank you for this.

18 And on this last presentation, have we
19 thought about, you know, any kind of incentive
20 for someone to keep that liquidity premium
21 because there's a bit of a drag obviously on --
22 in the markets, today's rates, too.

1 So if you had an incentive to keep
2 that 1 percent signed, and could it be then kept
3 in some sort of escrow. In other words, to
4 dedicate it as a backstop, you know. You might
5 make some difference on the interest rate, or
6 not. And would that have then -- if this data
7 proves itself on your loan loss reserves and
8 other things, it should also prove your own
9 economics and capital allocation. Have you
10 thought about that at all?

11 MR. BHAGAT: Yeah, no, that's exactly
12 right. Escrow account would be one way to
13 implement this type of account. And I think
14 importantly, particularly in the treatment and
15 control framework, but -- and if that works, you
16 would want to provide the borrower that sets up
17 this type of account with interest on that
18 mortgage reserve account, for example, and
19 potentially a lower mortgage rate --

20 MEMBER ANNIBALE: Yeah.

21 MR. BHAGAT: -- that reflects the
22 lower probability of default. And importantly,

1 those two things could actually make the monthly
2 outlays for that -- folks that have that account
3 --

4 MEMBER ANNIBALE: Right.

5 MR. BHAGAT: -- the same as the
6 monthly outlays for the folks that made, in our
7 example, the 5 percent down payment.

8 MEMBER ANNIBALE: That's exactly what
9 I had in mind.

10 MR. BHAGAT: Right. And the numbers
11 work out. I think we looked at about a 12.5
12 percentage point -- 12.5 basis point discount in
13 terms of mortgage rate, and about 2.25 percent
14 interest. Obviously with the Fed easing, that's
15 potentially a bit high compared to where we were
16 in -- a few months ago.

17 But 2.25 percent on the balance in
18 that emergency money reserve account would
19 accomplish equalization of monthly outlays
20 ignoring the effect of taxes.

21 MEMBER ANNIBALE: Yeah. And it would
22 reduce your loan loss reserve requirement and

1 your capital allocation as a lender.

2 MR. PEARCE: Great. Andrea, you were
3 talking about reserves earlier.

4 MEMBER LEVERE: So you can get your
5 payment from me before you leave. I don't know
6 if you were here when I said that we are piloting
7 exactly this. And with Homewise, many people may
8 know Homewise in New Mexico and with the
9 Statewide Housing Authority in Oregon.

10 We're not doing an RCT, but we are
11 testing out all these different designs exactly
12 as you're saying but in the terms of how --
13 what's easiest way for people to set up these
14 accounts, what are the incentives both with the
15 mortgage or with the savings, and it is on a
16 voluntary basis at this point.

17 But with the results from this -- so
18 we'll have real live results. It takes a while
19 obviously, in terms of what this can do. And it
20 also, what's interesting, and it could get to
21 Lariece's piece is how does this help people
22 imagine themselves as homeowners as well.

1 And so to me, that's another benefit
2 of what this could be doing. And we are
3 discussing an expansion of this program with your
4 colleagues.

5 Since I also have the floor, I'd love
6 to know -- we were, Margaret and I, talking. In
7 your data, are you looking at all at student
8 debt?

9 MS. BROWN: We do. We have the
10 student loan debt because it's part of the credit
11 bureau data.

12 MEMBER LEVERE: Right, because it
13 wasn't on any of the slides.

14 MS. BROWN: It is part -- we've -- I
15 have it separate in the analysis and then we --
16 in order just to summarize the slides, I've
17 included it as part of the credit attributes, and
18 it's also in the DTI.

19 So yes, we know whether or not they're
20 delinquent on their student loans, as well as the
21 amount of the student loans. So that's part of
22 the full credit picture.

1 I think I mentioned in brief passing,
2 it does matter. Student loan debt matters. It's
3 not the major determinant of all of the credit
4 factors. In fact, the -- of course the credit
5 scores and income -- income matters more. But
6 yes, student loan debt does matter.

7 MEMBER LEVERE: I think there's a very
8 broad sense that it is an incredible driver of
9 the lack of household formation --

10 MS. BROWN: Right.

11 MEMBER LEVERE: -- and homeownership.
12 And so being able to tease out how much of it is
13 truly that and how much is other factors would be
14 very helpful.

15 MR. PEARCE: Jonathan?

16 MEMBER MINTZ: I just have a quick
17 clarifying question and then a question for Ryan.
18 Your findings around the importance of liquidity
19 in comparison to equity I assume accounts for
20 income. Is that --

21 MR. BHAGAT: We -- so that's a good
22 question. So we did not --

1 MR. PEARCE: Could you ask the
2 question again?

3 MEMBER MINTZ: Oh, I'm sorry. I
4 prefer to mumble.

5 I just want to make sure that your
6 findings about the importance of liquidity in
7 comparison to equity accounted for income.

8 MR. BHAGAT: So that's a great
9 question. Thank you for that. We, at the time -
10 - at the time that we produced this research and
11 still today, we do not have access to credit
12 scores for research purposes.

13 And so we didn't -- because of that,
14 controlling for variables including income and
15 others, felt wholly incomplete, and so we didn't
16 do this analysis in a way -- in a statistical way
17 where we control for the typical underwriting
18 variables.

19 That is something that we would --
20 that we're hoping to do going forward if and when
21 we get access to credit scores.

22 MEMBER MINTZ: But then how -- I'm

1 going to ask this in sort of a dumb way. How do
2 you decide that what you're looking at is in
3 comparison to equity as opposed to being rich?

4 MR. BHAGAT: Right. It's a good
5 question. So we're essentially assuming that
6 people that are in adjacent LTV bins at
7 origination are similar.

8 MEMBER MINTZ: I see.

9 MR. BHAGAT: Not -- but not the same.
10 But it's absolutely -- that's something that with
11 the ability to look at credit score we would test
12 in a more --

13 MEMBER MINTZ: You also can look at
14 deposits, can't you? Can -- you guys can -- I
15 think you can look at models of income projection
16 based upon direct deposits.

17 MR. BHAGAT: Yes, we can.

18 MEMBER MINTZ: Right.

19 MR. BHAGAT: We can. We haven't
20 incorporated that into this analysis. The thing
21 that we do do -- and I would direct you to the
22 website or I'd be happy to follow up after -- is

1 we do show that there is a very close connection
2 between a loss of income and mortgage default.

3 So for folks that default, there is a
4 drop in income that precedes their third missed
5 mortgage payment of only about a couple of
6 months, and that that pattern persists -- if we
7 break our sample up by income quartiles, that
8 pattern persists for both the highest and the
9 lowest income quartile.

10 So that's what points us at --
11 obviously the default rates for folks in that
12 higher income -- highest income quartile are
13 lower than the default rates for folks in the
14 lowest income quartile.

15 However, the proximity of the loss in
16 income to the first missed mortgage payment in
17 terms of time suggests that even folks in that
18 highest income quartile did not have enough
19 liquidity to withstand the loss of income.

20 MEMBER MINTZ: Interesting. And,
21 Ryan, can I just ask you a super quick question?
22 Is there a -- when you were talking about the

1 movement of availability and in -- of mortgages
2 and you're talking about the versions -- I'm not
3 a housing person, so my words are going to be
4 wrong, but the versions of mortgages that are
5 riskier products, is there an industry sweet spot
6 on what that balance is? Is there a kind of a --
7 like a safe harbor-ish policy component around
8 where ideally that mix is, presumably then to be
9 able to encourage lenders to be hitting more of
10 our intended market?

11 MEMBER BOSTIC: So I'm not --

12 MEMBER MINTZ: I told you I was dumb
13 about this. I'm just -- you were talking about,
14 you know, where available mortgages were and the
15 percent of mortgages that were riskier mortgages,
16 right, and that obviously -- that riskier
17 mortgages are now way down from where they were.

18 MR. GOODSTEIN: You're talking about
19 like --

20 MEMBER MINTZ: Right. And so --

21 (Simultaneous speaking.)

22 MEMBER MINTZ: -- I guess what I'm

1 asking is: is there some sort of a policy-based
2 or other indicator of where it ought to be for
3 purposes of like sound -- safety and soundness
4 for lending institutions?

5 MR. GOODSTEIN: So I don't think
6 there's a right answer on that. I mean, I can
7 just point to, you know, there are obviously a
8 number of people in this room and other, you
9 know, researchers in the industry, analysts who
10 have thought a lot about this.

11 So just one thing that comes to mind
12 is like Urban Institute has a housing finance
13 policy center. They have an index of credit --
14 mortgage credit availability which is just sort
15 of -- really they look at sort of the ex-ante
16 riskiness of loans and they sort of trace that
17 over time.

18 And so if you were to ask them that
19 question, they would point to like the 2002, 2003
20 period as like a reasonable --

21 MEMBER MINTZ: Got it.

22 MR. GOODSTEIN: -- standard. That's,

1 you know, one opinion. I don't think there's a -
2 -

3 MEMBER MINTZ: I just wonder whether
4 that could play a role in safety and soundness
5 examinations that might help the lenders feel
6 more comfortable.

7 MR. PEARCE: One thing that just from
8 a regulatory perspective, CFPB has the ability to
9 repay rule that has a qualified mortgage bucket.
10 And one of the elements of qualified mortgage
11 definition involves the absence of some of the
12 risky features that Ryan was talking about from
13 the data.

14 Martin then Rafael -- or Rafael and
15 then Martin.

16 MEMBER BOSTIC: So thank you, Martin.

17 MR. PEARCE: He's never done that
18 before, by the way.

19 MEMBER BOSTIC: He's a trailblazer,
20 right?

21 I guess I had a couple of reactions.
22 One is I agree with Andrea and Margaret. There

1 should be a whole separate student loan paper
2 because the marginal impacts of student loan
3 debt, those dynamics are not well understood, but
4 we know they're out there. And clarity we can
5 get on that can sort of help us partition the
6 population.

7 I cannot -- I would strongly recommend
8 that you do the controls, do some analysis of the
9 controls when -- very early in my career, I was
10 at the board, and we did some early warning stuff
11 for fair lending exams, and we didn't have all
12 the controls.

13 But if you do the controls and things
14 disappear or shrink to small levels, and you're
15 pretty sure you don't have anything else, right,
16 and you can sort of be clear because your
17 statement that liquidity may be more important
18 than equity, income, and payment burden, that's a
19 strong statement.

20 And to me, it just raised the
21 question, if that's true, then probably almost
22 all of our underwriting models are not right.

1 MR. PEARCE: Right.

2 MEMBER BOSTIC: So we should sort of
3 really unpack this and really understand it, and
4 yeah, it would be very interesting to have deeper
5 understanding on.

6 And then my last question is really
7 about the geography results. So they were very
8 interesting. You showed aggregate results and
9 then you showed breakdowns for some states and
10 they didn't all balance out.

11 So for the African American/white home
12 ownership gap, in the aggregate it was like
13 three. It was --

14 MS. BROWN: That's right.

15 MEMBER BOSTIC: -- a small number.
16 But then you showed New York and Mississippi as
17 being gigantic.

18 MS. BROWN: That's right.

19 MEMBER BOSTIC: Right? And so where
20 are the offsets? Like how do we get to an
21 aggregate of basically zero if you've got these
22 big effects in a small number of places? And

1 like does the big positive and the big negative -
2 -

3 MS. BROWN: They kind of cancel each
4 other.

5 MEMBER BOSTIC: -- they probably
6 balance out, but they don't really balance out.
7 Right? That can have implications for how we
8 think markets will work in those places.

9 Similarly on the Hispanic/white gap, there's a
10 big gap there. The four examples you showed,
11 none of them had a big gap.

12 So for me, it was like where are the
13 four or five -- you ranked in order of the states
14 by biggest contribution to gap. Like what are
15 those states? What do they look like? How does
16 that play out?

17 And then the other question, the last
18 question I would have, is: is this at the state
19 level? Can you do this at the MSA level?

20 MS. BROWN: I think we can. We have
21 --

22 MEMBER BOSTIC: Because that would be

1 super interesting.

2 MS. BROWN: -- county data.

3 MEMBER BOSTIC: I think about, like I
4 say, for Florida or Texas where you have
5 significant demographic variation, or Ohio.
6 Cleveland, Columbus, Cincinnati, they're not
7 going to be the same.

8 MS. BROWN: That's right.

9 MEMBER BOSTIC: And so just sort of
10 breaking that out I think would be really
11 interesting for -- you know, for helping to think
12 about how -- what's really driving these
13 differences and getting that understanding. But
14 this is all very interesting stuff.

15 MS. BROWN: Yeah. Thank you.

16 Just a quick comment, thank you so
17 much for the additional paper idea. We're always
18 looking for those.

19 (Laughter.)

20 MS. BROWN: For the -- I think we can
21 do MSA level. We actually received feedback to
22 do the state level. We had not done that in an

1 earlier version of our draft. So if our data
2 allows us to go more granular, I think we'd be
3 interested in taking a look at that.

4 On the student loan piece, I -- you
5 know, maybe in a future iteration we can even
6 have the bar graph just with the student loan
7 piece broken out. It is in our data. I do --
8 wanted to look up what the magnitude of that
9 impact was for you.

10 We have -- when we include the student
11 loan relative to the income, the effect of that
12 on the likelihood of transitioning to a mortgage
13 is -- it decreases that likelihood by 1.3
14 percent. And -- but that's the -- that may sound
15 small, but that's with a lot of other factors in
16 play. Put that in context with another similarly
17 scaled measure such as house prices relative to
18 income, for instance, that is a negative 5.6, so
19 there's -- that's a larger effect than the
20 student loan debt.

21 However, another smaller effect is the
22 auto debt and the credit card debt, which we also

1 include as separate controls, and those were
2 actually much closer to zero in our analysis. So
3 there -- it matters, but there's a lot of
4 different things. So it may sound like a small
5 effect, but it does matter.

6 MR. PEARCE: So Kanav, did you want to
7 say anything on here?

8 MR. BHAGAT: Yes. I do -- yes.

9 MR. PEARCE: I just want to give you
10 a --

11 MR. BHAGAT: Thank you very much for
12 the suggestions. And that is absolutely -- once
13 we have access to FICO, which hopefully knock on
14 wood will be in a few months, we will absolutely
15 do --

16 MEMBER BOSTIC: Yeah, don't wait for
17 FICO.

18 MR. BHAGAT: -- we do the tests.

19 MEMBER BOSTIC: You could do it right
20 now. Like to me, if you ran the analysis and you
21 had payment burden, liquidity, and income all
22 just together, you're going to get three

1 coefficients that will rank order their
2 importance.

3 MR. BHAGAT: Right.

4 MEMBER BOSTIC: Right? That's a
5 baseline. And that will give you some sense.
6 You know, credit score in my experience basically
7 just reduces everything. It has not historically
8 led to sort of those interactions such that the
9 ranking changes. So I think you can know much of
10 the answer now.

11 MR. BHAGAT: Right. One thing we have
12 done is we've looked at -- we have looked at
13 event studies around mortgage default, and
14 whether you segregate your sample by total debt
15 to income above or below 43, whether you look at
16 the highest income quartile or the lowest income
17 quartile, or whether you look at under water
18 versus above water in terms of home equity, the
19 connection between the income loss and mortgage
20 default is always there, and it's always income
21 tends to drop somewhere between one and three
22 months before people start missing their mortgage

1 payments. And so it suggests to us again these
2 other factors might be compounding factors, but
3 the single constant in all of those equations is
4 this drop in income that --

5 MEMBER BOSTIC: So can I just react to
6 that because, you know, life happens. What
7 you're saying, you live, and then there comes an
8 episode and you lose your money, you lose your
9 income, and so you default.

10 I don't think that would surprise
11 anyone here. I guess for me, the question is
12 like if I'm ex-ante, and I'm looking at an
13 applicant or I'm trying to figure out who needs
14 the extra counseling or extra servicing
15 attention, like what information would be useful?

16 And that's kind of why I want you to
17 just give me everything you know about me right
18 now, and can I use that to identify my higher
19 risk population, and maybe if you have other
20 algorithms to say who is more likely to have life
21 happen, right? But that's a different kind of
22 exercise. And so the part -- like separating

1 them out I think would be really an important --

2 MR. BHAGAT: Yeah.

3 MEMBER BOSTIC: -- but useful thing.

4 MR. BHAGAT: No, that's a great
5 suggestion. We'll absolutely do that. And I
6 think part of me wants to say that knowing what I
7 know already is that -- and the reason why we
8 think this emergency mortgage reserve account
9 might be impactful is because life does happen,
10 and actually predicting ex-ante who it will
11 happen to and when is super hard. And that's why
12 the presence of that liquidity through this
13 reserve account we think could be super
14 impactful. But it's a great point. Thank you
15 for that.

16 MR. PEARCE: Martin, and then I
17 thought I saw Margaret raise her hand, if you
18 want to give that -- and then Pam at the end.

19 MEMBER EAKES: Thank you. These are
20 all fabulous presentations of data and really
21 appreciate it. I have a question I think for
22 each of you.

1 Kanav, the first one for you is I
2 would like to see some sort of breakout on race
3 and wealth. When you talk of that three payment
4 equivalents, I think that that will eliminate
5 virtually all black applicants that if we said
6 that the wealth or cash wealth for black
7 families, the median is \$200 to zero, you're not
8 going to have -- and it's somewhat consistent
9 with what I think I remember from HMDA data for
10 Chase that it was a little bit truncated for
11 African American borrowers during this time
12 period for low LTV -- I mean, high LTV, low down
13 payment loans.

14 So when you break them out, my
15 hypothesis listening to you is that you are
16 really -- you're proxying for wealth, for family
17 wealth, and you're excluding by having the three
18 payments. In that category, the risk factors --
19 that somehow race is going to play in there, it's
20 going to be -- I agree with Rafael that credit
21 score is generally a compilation of other
22 variables so that it by itself doesn't give you

1 much intuition about explanatory power that the
2 underlying variables do.

3 So I don't know. I mean, I would love
4 that.

5 And just another data geek point is
6 that since you weren't measuring cash in accounts
7 that were in escrow, these were just actual
8 operating accounts that they had, and the way
9 that you define default as being three payments
10 behind, that if you have cash and people use
11 their cash to make the payment, of course you're
12 going to have a lower default if you started out
13 with three payments as a gimme.

14 See what I'm saying? That if you have
15 cash there and you got behind one month, and you
16 depleted your cash by one month, you got behind
17 two months, you got behind three months, by
18 defining it as three months past due within the
19 first three years, then the people who actually
20 default who started with a lot are really six
21 months past due. They just had reserves to make
22 that payment.

1 So one of the things we learned early
2 on is that delinquency does not ultimately equal
3 default unless you have a period like 2008
4 through '12, and lots of people who have very low
5 cash reserves, they get behind 90 days --- I
6 mean, we did this for 30 years -- and they catch
7 up. They catch up when things get better. They
8 have the same life events: death, illness,
9 divorce, job loss. Those are the four income
10 disruptors that really hit you.

11 So I just would love to see that for
12 -- but Lariece, what I wanted to ask you is a
13 thought about DTI. So DTI is the most robust
14 discussion right now trying to figure out the
15 qualified mortgage, whether or not we go back to
16 a 43 percent DTI without any GSE patch.

17 And Peter Zorn, one of your
18 colleagues, had done a paper at Harvard, which
19 you may have seen or disqualified, I'm not sure,
20 but basically concluded that 95 percent of low
21 income borrowers, which would be a good proxy for
22 communities of color, would be excluded from

1 being approvable loans if you had a 43 percent
2 debt to income ratio.

3 So it's -- my question is whether you
4 think that that is a valid standalone overlay, or
5 whether it should be built into the model with
6 all the other compensating factors. And then for
7 you on student debt, the piece that I wanted to
8 comment or think about there is that anecdotally,
9 when we see borrowers and we see, you know, a few
10 thousand, so it's not enough to really conclude
11 anything, we're seeing that a third of the
12 applicants we have that are African American are
13 disqualified from getting loans, not that they
14 get the loan and then default later. They simply
15 are not able to even qualify because of the
16 student debt.

17 So that when you do your study on
18 student debt, in addition to seeing whether it
19 impacts the default for people who get the loan,
20 if there's some way to measure how many people
21 disqualified and don't -- aren't able to get the
22 loan at all. And finally, Ryan, I was thinking

1 about -- and I don't know the answer to this, but
2 it's really interesting to me, is that thinking
3 about what causes a bubble and then a collapse.

4 And most of us think of it as loose
5 underwriting. So we had several places in there
6 where you concluded that the underwriting is
7 nowhere near -- I mean, despite the rhetoric we
8 sometimes hear in the press, the market still
9 feels pretty tight in terms of underwriting in
10 even the special programs where we used to try to
11 have 20 percent of borrowers below 620, nobody's
12 trying that anymore.

13 The question is can we get the minimum
14 threshold to be lower than 680? So the -- and
15 all the products that went away with Dodd-Frank
16 were clearly part of the problem.

17 The question is can you have a deep
18 recession that is based on asset bubble that is
19 simply the fact that we've got real interest
20 rates at zero or negative for a long period of
21 time so that asset prices are going up. Can you
22 have a bubble just from that without having the

1 additional increment by loose underwriting?

2 So loose underwriting creates
3 defaults, but it also creates more demand. So
4 I'm trying to get you to break those two out if
5 you have any intuition at all from the data that
6 you presented.

7 MR. GOODSTEIN: So let me just repeat
8 the -- again, I want to make sure I sort of get
9 where you're going with that. So are you asking
10 whether, you know -- so given that for the most -
11 - you know, from what we see the loan products
12 themselves don't have these risky features. Are
13 you asking whether -- how likely it is that we're
14 going to see sort of a fall in real estate
15 prices?

16 MEMBER EAKES: Yeah. I mean, what I
17 took from your presentation is we haven't seen
18 underwriting in terms of FICO score and other
19 things really deteriorate back to 2005. We don't
20 have any of the products of the NegAm, No-doc,
21 all those kinds of products that were essentially
22 prohibited under Dodd-Frank.

1 So I'm asking -- and so you were
2 concluding from that, I take it, that we're
3 really not near to hitting a 2008 event. And
4 being the paranoid fool that I am, I'm sort of
5 thinking if we also haven't had a period where we
6 had 10 years at zero interest rate, real interest
7 rates, that do we have an asset bubble.

8 MR. GOODSTEIN: Right.

9 MEMBER EAKES: Could that alone create
10 a collapse without underwriting weakness?

11 MR. GOODSTEIN: So yeah, I guess I'm
12 -- so I don't really know the answer to that. I
13 guess, what I -- I do sometimes worry when I make
14 a presentation like that I'm too rosy, you know,
15 in terms of, you know, trying to make the point
16 that we're not --

17 MEMBER EAKES: It's better to be rosy
18 than a paranoid fool.

19 MR. GOODSTEIN: I mean, you know,
20 there -- underwriting is loosening, right? There
21 are loans. You know, so for example, you know, I
22 shared credit score trends.

1 LTVs are going up, DTIs are going up
2 on average, so I mean there is some risk going
3 back, you know. Risk is expanding.

4 That, together with, you know, the
5 fact that we have not had a recession, you know,
6 so I think performance of loans is going to
7 deteriorate.

8 I mean, I -- certainly when we see the
9 next recession, right? The question is: how bad
10 is it going to be? You know, I don't have a
11 great answer to that other than I don't -- you
12 know, I don't expect it to look like that.

13 MEMBER EAKES: My own intuition is
14 that the underwriting risk that's been assumed
15 now --

16 MR. GOODSTEIN: Yeah.

17 MEMBER EAKES: -- is maybe 10 percent
18 of what it was in 2005 or -- I mean, it's, you
19 know, we had 25 percent of the entire mortgage
20 market that were subprime exploding arms that had
21 no chance of doing anything but exploding into
22 foreclosure. We don't have any of that now.

1 MR. GOODSTEIN: Right.

2 MR. PEARCE: So I've gotten permission
3 from the conductor of master of ceremonies here,
4 we are already over time, and so I want to go to
5 lightning round.

6 And so anybody has a quick response to
7 one of Martin's questions, if we could be quick,
8 and then I want to try to get Margaret and Pam to
9 have a moment to ask a quick question, if we
10 could have another five minutes or so.

11 MS. BROWN: Thank you. We -- you've
12 -- this will be quick because you've touched on a
13 topic that in my current role I can't speak much
14 on at this point with respect to the DTI
15 potential overlay.

16 Peter Zorn is still in the business of
17 dealing with trying to make sure that the models
18 are incorporating the risk associated with DTI as
19 robustly as he possibly can with his particular
20 group.

21 And yes, you're absolutely right that
22 minorities are going to be kind of

1 over-represented and that higher DTI range, so
2 that would be relevant considerations for those
3 who are able to make those considerations, of
4 which I can't.

5 MEMBER EAKES: Study which didn't use
6 Freddie Mac data said that DTI alone between 43
7 and 50 would add like two to four loans of
8 default per 10,000 loans.

9 MS. BROWN: Right.

10 MEMBER EAKES: Very small --

11 MS. BROWN: Additional default --

12 MEMBER EAKES: -- additional default

13 and --

14 MS. BROWN: -- relative to the --

15 MEMBER EAKES: -- very high amount of
16 exclusion for access.

17 MS. BROWN: Right. And the student
18 loan piece I think, yeah, we're definitely
19 interested in taking a look at that group, thank
20 you.

21 MR. BHAGAT: So I'm not prohibited
22 from commenting on total DTIs.

1 (Laughter.)

2 MR. BHAGAT: Everything that we have
3 looked at has suggested that total DTI is not a
4 particularly effective measure for preventing
5 default. There is academic research that suggests
6 that had the 43 percent limit been in effect in
7 the pre-crisis period, it would not have had a
8 material impact on defaults during the crisis,
9 just as -- just to provide one example. And our
10 research suggests something similar.

11 With respect to the point you made on
12 a breakout by race and wealth, I think it's
13 important to note that because we're talking
14 about trading equity for liquidity, and if you
15 were going to make whatever down payment you were
16 going to make whether it was 3 or 5 or 7 or 20,
17 reducing that slightly and taking that residual
18 cash and putting it aside in a reserve account,
19 it shouldn't impact affordability at all, right?

20 We're not asking for additional
21 liquidity. We're asking for just the same amount
22 of the down payment you were going to make, make

1 that down payment slightly smaller and set up
2 this liquidity account. So I think that's
3 important to note. I think the cuts by race and
4 wealth are still super important, but I want to
5 emphasize that we're not impacting liquidity in
6 the way that -- in a way by having an additional
7 down payment or an additional cash requirement.

8 MEMBER EAKES: That's your proposal,
9 but your data that you had doesn't make that
10 breakout because it's not an escrow account.

11 MR. BHAGAT: No, that's right.
12 Absolutely. Absolutely.

13 And then just with respect to -- yes,
14 it does seem somewhat mechanical like if you have
15 money in your account, you're going to make your
16 mortgage payment. But that -- I would just note
17 that that effect seems to persist over three
18 years. So the level of cash that you had in the
19 month after closing seems to be impactful for
20 three years hence.

21 And so I think it's -- that's the
22 thing that I think is powerful. But you're

1 absolutely right that there is a mechanical
2 relationship between the amount of cash you have
3 in your checking account and whether or not you
4 can make your mortgage payment. So point well
5 taken. Thank you.

6 MR. PEARCE: All right. Margaret, can
7 I ask you to ask your question?

8 MEMBER LIBBY: Yes. I will ask my
9 question much in the way that I made my final
10 statement earlier, try to like by not asking it
11 or keeping it short. But just short of building
12 on the questions around the student debt, and I
13 think that breakdown that Martin eluded to around
14 race ethnicity, but I think even more broadly I
15 would be really interested in looking at cutting
16 these data by gender as well, just knowing how
17 the race gap I think is -- or the racial wealth
18 gap, I should say --- is really I think
19 intersects with the gender wealth gap, and would
20 just be really interested in -- I don't know if
21 that's another paper idea, but --

22 MR. PEARCE: You've got a lot of work

1 to do, right?

2 MEMBER LIBBY: Yeah. Yeah.

3 MS. BROWN: Thank you.

4 MEMBER LIBBY: But thank you all, this
5 was really --

6 MS. BROWN: Yes.

7 MEMBER LIBBY: -- very interesting
8 stuff.

9 MR. PEARCE: Great.

10 And Pam?

11 MEMBER PATENAUDE: Ryan, you list four
12 government loans on the second slide on the
13 non-bank share of mortgage originations. John
14 Weicher and I don't know what FSA stands for.
15 The VA, FHA, and Rural Housing?

16 PARTICIPANT: Yeah, farm -- it's farm
17 credit.

18 MEMBER PATENAUDE: Oh, it's farm
19 credit.

20 MR. GOODSTEIN: They're both rural
21 housing programs, right? Yeah. But most
22 government loans are FHA or VA. These are

1 smaller programs.

2 MR. PEARCE: And anyone else with a
3 question, we'll -- we can cover during the break
4 maybe.

5 So thanks again to the panelists for
6 the work on the mortgage market.

7 (Applause.)

8 MR. MILLER: Why don't we reconvene at
9 2:50, and we'll try to make up a little bit of
10 time. Thank you to the panelists.

11 (Whereupon, the above-entitled matter
12 went off the record at 2:41 p.m. and resumed at
13 2:51 p.m.)

14 MR. MILLER: Well, we've -- as we
15 often do, we saved the best for last. So Emerson
16 Hall, the associate director in consumer
17 community affairs, is going to moderate this
18 panel for us. Emerson?

19 MR. HALL: Good afternoon, everyone.
20 I'm delighted to have an opportunity to be here
21 and to moderate this panel on sustainable bank
22 accounts.

1 It's always a pleasure. I think this
2 is my second time, but I've been to these
3 meetings probably about four times now, and it's
4 always a pleasure to be the last panel because
5 you get a chance to hear a lot of the comments
6 that takes place during the day.

7 I always write out my remarks, so I'll
8 know exactly what I want to say because at the
9 beginning of the day I have certain things I want
10 to say, and towards the end of the day I have
11 other things I want to say because of what I've
12 heard.

13 But it's been really interesting
14 today. And as John has said, I'm an associate
15 director of community affairs, recent position
16 that I was selected for. But I'll -- I do want
17 to share this because of the fact of what I've
18 heard today is every time I come to these
19 meetings, I get inspired. I get motivated. I
20 get encouraged, energized as a result of
21 listening to what you guys share with us.

22 We provide a lot of information. We

1 have good panels that provide quality
2 information, but you guys give us good feedback.
3 In community affairs, it's our job to go out and
4 execute the strategies to try to get results,
5 impact, and outcomes.

6 And what I see and what I hear when
7 I'm in the meetings here is I get a chance to be
8 among the champions, the heroes, those that are
9 actually not just talking the talk but walking
10 the walk. I was impressed by all of you in
11 regards to the information you shared this
12 morning, and I was particularly impressed with
13 the information that Martin shared. I had a
14 chance to talk to him at lunch about black
15 mothers. I have a black mother, and it certainly
16 is -- we don't just talk about what we're trying
17 to do. We're talking about what's actually being
18 done, and that's impressive.

19 So we get as much here at the FDSE as
20 we give, and so we certainly appreciate that. So
21 I'm going to get on point here with my remarks.
22 But we have a great panel. We appreciate you

1 guys staying the entire day to get a chance to
2 participate with this panel as well.

3 So again, my name is Emerson Hall, and
4 I'm pleased to have the opportunity to come
5 before the Committee as a moderator for this
6 panel today. One of the key challenges to
7 expanding participation in the nation's banking
8 system is undoubtedly getting the attention and
9 commitment of unbanked and under-banked
10 consumers. And for all -- most people, including
11 the unbanked consumers, don't wake up in the
12 morning thinking about their choice of financial
13 service providers.

14 So our panel this afternoon will
15 showcase and address several effective strategies
16 that have helped increase the rates at which
17 consumers are willing to consider to obtain and
18 use bank accounts. Experience has taught us that
19 sincere intentions and enormous efforts do not
20 necessarily translate into successful outcomes.

21 To help us, our panelists will draw on
22 a wealth of experience, research, and insight.

1 First, we will hear from Lindsay Ferguson,
2 director of strategic engagement for America
3 Saves. Lindsay is responsible for creating and
4 managing American Saves outreach week,
5 communications and partnership strategies
6 including ongoing technical assistance for new
7 and existing America Saves local campaigns. Ms.
8 Ferguson has been in the non-profit sector with a
9 focus on financial stability for over a decade.
10 She will share with us principles of social
11 marketing and behavioral economics that motivate
12 and encourage Americans to save. Over 710,000
13 Americans have established saving goals and
14 created savings plans using the America Saves
15 pledge.

16 Next, Katy Davis, managing director
17 for ideas42. Ms. Davis oversees portfolios in
18 financial health, charitable giving, and related
19 areas. Katy has more than 13 years of experience
20 working across the public and private sectors in
21 economic development, finance, and behavioral
22 design. At ideas42, Katy has led engagements in

1 applying behavioral science insights for
2 financial institutions, fintech startups,
3 colleges and universities, housing providers and
4 asset building non-profits. Ms. Davis will
5 present topics addressing behavioral perspective,
6 closing the intentional gap, what deeper supports
7 look like, and what bid design means.

8 And finally Amelia Erwitt is managing
9 director of Cities for Financial Empowerment
10 Fund. Amelia provides leadership for CFE fund
11 staff in the development and execution programs,
12 technical assistance, research, policy and
13 communications. Ms. Erwitt will share findings
14 from research they have coordinated to uncover
15 what types of messaging can most effectively move
16 unbanked people to consider opening bank
17 accounts.

18 So as you listen to these
19 presentations, we would encourage you to consider
20 what resonates with your own experiences, and
21 conversely to identify where something you are
22 hearing that's not consistent with what you may

1 have thought before today. So we'll start with
2 Lindsay.

3 MS. FERGUSON: Okay. First of all, I
4 want to say thank you for letting us be a part of
5 today's meeting and share with you what we are
6 doing at America Saves. I just want to highlight
7 what I'm going to talk about. I'm going to share
8 a quick overview of America Saves, who we are,
9 what we do, share with you some of the
10 communication strategies that have been most
11 effective for us, what that looks like, what are
12 the interventions we're using. I'll talk to you
13 about how we're engaging with financial
14 institutions at a national level, and then I'll
15 wrap it up with showcasing what we're doing at
16 the local level through our local campaigns and
17 the financial institutions that they are working
18 with.

19 So America Saves, who we are, we're an
20 initiative of the Consumer Federation of America.
21 We were founded on principles of social marketing
22 and behavioral economics, and our main mission is

1 to motivate and encourage Americans to save. We
2 focus on those who are most vulnerable, and we
3 focus on creating savings accounts with at least
4 \$500.

5 We focus on two main audiences
6 throughout all of our campaigns, our initiatives:
7 savers, which are individuals or Americans who
8 are aspiring to save, they need a little bit of
9 help to save, or just seeking more information
10 about saving. And Emerson mentioned to date we
11 have encouraged over 710,000 Americans to create
12 a goal and a savings plan with the America Saves
13 pledge. Our second audience are what we call
14 partners, which are organizations that use the
15 plug and play resources, messaging tools, et
16 cetera, that we provide to help them promote
17 saving and taking financial action to a targeted
18 community or audience.

19 So the nucleus or the foundation of
20 our campaign and all of our initiatives is the
21 America Saves pledge. This is a simple savings
22 plan that allows somebody to make a commitment to

1 saving, which we know is important when it comes
2 to behavior change. Write down a plan and create
3 a savings goal. And after that, we follow up
4 with them with ongoing, what we call saver
5 supports, which essentially are nudges and
6 communication strategies to help them accomplish
7 their savings goals and be more successful at
8 saving.

9 So I do have some statistics I wanted
10 to share with you from some recent surveys. We
11 did a saver survey in 2017 where we asked our
12 savers, those who have taken the pledge -- again,
13 when I use the term saver, it's the people who
14 have taken pledge. We've asked them how
15 regularly are they saving or putting away money
16 since after taking the pledge. And 60 percent of
17 them told us that they are saving and putting
18 away money on a regular basis versus before they
19 took the pledge. That was only 29 percent of
20 them.

21 We also recently used -- played around
22 with the statistic that, you know, the now famous

1 \$400 statistic and polled our savers through a
2 text message and asked them if they had enough --
3 \$400 for an emergency. And 69 percent of them
4 said yes, and 31 percent of them said no. And
5 these, again, are the individuals that are
6 receiving what we call our saver supports. So
7 they're getting those ongoing messages about
8 saving, reminding them to save, giving them
9 information, et cetera.

10 And I just want to share with you all
11 that the top savings goals as of last week -- I
12 think I pulled them -- were emergency fund, debt
13 repayment, and vacation or a special event. So I
14 wanted to uplift here that these savings goals
15 kind of change, and -- but consistently we have
16 seen emergency fund and debt repayment be one of
17 the top savings goals for our campaign.

18 So the main interventions that we use
19 to encourage Americans to save and our savers
20 specifically to take financial action are email,
21 text, blog, and social media. We are
22 communicating with over 100,000 savers through

1 email and about 50,000 through text message on a
2 weekly basis. Our blog is robust and we're
3 always directing them to more resources that we
4 have been creating in-house. And then for social
5 media, we have an expansive network of about
6 25,000 followers on Facebook, another 15,000 on
7 Twitter, and then our Instagram is growing since
8 we know that's a new hot social media platform.

9 So I put on the screen kind of what
10 we're sending through text message because I
11 think it shows a lot of the objectives I'll talk
12 about in a minute that we're using. So actually,
13 I'll talk about the objectives first. So we
14 really have made a conscious effort to have
15 objectives for all of our communication
16 strategies so that we're not just sharing out
17 information to share out information, right? We
18 know that we are being inundated with information
19 from all over the place. And America Saves
20 doesn't want to get lost.

21 So we made sure that all of our
22 communications are accomplishing one of the five

1 objectives, and I left one off, so I'll have to
2 share with you guys what that is last. It is to
3 provide a value, so something that is a tip,
4 information, something of value for that
5 individual, provide support. Again, this is when
6 we check in with them on their savings goals.
7 Have you made your savings deposit this month?

8 Response seeking, we want to have a
9 relationship with our savers, and we know that a
10 relationship you have to have engagement. So we
11 want to have them share something back with us,
12 whether it's that statistic I shared with you
13 earlier when we asked them: do you have \$400 for
14 an emergency fund?

15 We obviously send them nudges or
16 reminders. It's the 15th of the month, some of
17 you may have been paid. Don't forget to transfer
18 money into your savings account. Then the one I
19 left off, which is I think one of the most
20 important ones is humor. We have started to
21 incorporate humor into our communication
22 strategies, again, to try to rise above some of

1 the noise and be more -- have a personal approach
2 with our savers to let them know that we're
3 people, too. The people that are sending you
4 messages about savings has humor as well.

5 So the two yes and no kind of
6 statements here, those were the responses that
7 were automatically populated after we asked the
8 question: have you made your savings deposit this
9 month? And if they replied yes, we say, like
10 nicely done, save automatically with split
11 deposit to transfer money into your savings
12 account every paycheck, and then it links them to
13 a helpful resource from our website. If they say
14 no, we let them know there's still time. Here,
15 you know -- here again, is a way to split your
16 deposit.

17 And I think these are really, again,
18 humanizing what we do and telling people like
19 it's okay if you have not made that savings
20 deposit this month. And again, these messages are
21 going out on a weekly basis to all of our savers.
22 And oh -- well, I'll go back really quickly

1 because I wanted to lift up something here, too.
2 Some things that we have been really making a
3 conscious effort to do when it comes to
4 communications is removing any type of saver
5 chain.

6 So all of our communications are,
7 again, we're trying to make them more personal.
8 We're removing the "skip the \$5 latte" statement
9 as a part of our communication strategy, and
10 we're really making a conscious effort to meet
11 savers where they are, and we're introducing a
12 think like a saver mentality where saving is for
13 you, it's not for me, it's not for America Saves,
14 it's not for your bank, it's for you. So we are
15 truly making a conscious effort with our
16 communications to incorporate that language.

17 And then, of course, we're also
18 incorporating video, images, GIFs, and we are
19 shortening our messages because we all know that
20 the more information you can punch in a couple
21 sentences, the better, right? So that's kind of
22 our communication strategies, what's working, and

1 what we're finding. And then I wanted to talk to
2 you guys about financial action, which in our
3 case means specifically working with financial
4 institutions.

5 So the theme of taking financial
6 action is one of the key messages throughout our
7 entire campaign. While we're wanting to motivate
8 and encourage Americans to save, we want them to
9 do something with that money. So we want them to
10 put it into a safe and secure account, set up
11 automatic deposits, set up split deposit. You
12 all know the drill. So that is a common theme
13 throughout all of our messaging, and we work with
14 financial institutions to provide safe and secure
15 vehicles for our savers to take financial action
16 throughout all of our America Saves programs.

17 So we do have programs that are
18 actually embedded into financial stability
19 programs through our Young Workers program which
20 targets youth employment programs. And then we
21 also have the Split to Save program which targets
22 employers. It provides them a platform and an

1 avenue to share information about split deposit
2 with their employees. So a piece of all those
3 programs is working with the financial
4 institutions so that they have access to a safe
5 and secure account.

6 And then another way that we're
7 working with financial institutions on a national
8 level is obviously through America Saves Week.
9 We have had America Saves Week since 2017, and
10 since then financial institutions have been a
11 large participating organization of the week.

12 Last year we had around 2,000
13 participating organizations, and of them over 400
14 were from a financial institution. And the
15 financial institutions are using the week to just
16 amplify the savings message to their communities,
17 and again amplify that they do have safe and
18 secure products that people can take advantage
19 of.

20 We also are highlighting those
21 financial institutions who we think are going
22 above and beyond to promote saving and provide

1 safe and secure accounts through our Designation
2 of Savings Excellence program. So last year, we
3 awarded 18 financial institutions and you can see
4 some of the impact that they made here on this
5 screen. Over 246,000 people have deposited over
6 \$500 million during America and Military Saves
7 Week 2019. And this is from that group of 18 who
8 we awarded the designation to. It's an
9 application process and then they also are --
10 their application is reviewed by a committee for
11 both banks and credit unions.

12 And then lastly, I just wanted to
13 highlight what we're doing at the local level
14 through our local campaign network. So America
15 Saves, we have almost 70 local campaigns across
16 the country who basically use the America Saves
17 branding, resources, tools, et cetera, to share
18 the message of saving to their specific
19 community. And with that, we provide a lot of
20 technical assistance. So we provide them their
21 own branding. We provide them a database. We
22 provide them a website, and then we also make

1 sure that they are connected with a financial
2 institution, the more the merrier, but at least
3 one in their community.

4 And a great example of this is LA
5 Saves, which is actually a part of the AEI
6 network in Los Angeles. And it is coordinated by
7 a local non-profit, but they have over 100
8 organizations that support the campaign. They
9 have embed what they call team leaders, which are
10 volunteers from various financial institutions
11 and organizations that go in the community and
12 talk about saving and talk about financial --
13 taking financial action through various events
14 and outreach opportunities. So I wanted to make
15 sure that we gave them a little bit of credit
16 since they are part of the FDIC family.

17 And that's kind of it. I just want to
18 make a selfish plug here that America Saves Week
19 is coming up in February 2020, and I hope that
20 you and all of everybody in the room can
21 participate with us.

22 MEMBER LEVERE: You have an extra day.

1 MS. FERGUSON: I know. We do. We do.
2 So thank you.

3 MS. DAVIS: Good afternoon.

4 There's a great cartoon. I don't know
5 if any of you have seen it. It shows a boy
6 sitting in a classroom with his hand up, and he's
7 saying may I be excused, my brain is full. I'm
8 sure that's how many of us feel right now. So
9 I'll try to keep things as lively and
10 entertaining as Lindsay has.

11 So some of you may have seen this
12 image before. It's sort of a classic in the
13 behavioral economics world.

14 (Laughter.)

15 MS. DAVIS: I think it really captures
16 a couple of important things about humans. And
17 it really describes not other people that we're
18 designing for, but all of us. So these fellows
19 have made it all the way to the gym. They have
20 their towels in their hands, and yet at the last
21 second, they're taking the escalator instead of
22 the stairs.

1 I, of course, packed my gym shoes
2 coming here to D.C. Did I take them out this
3 morning? No, I did not. So they actually made
4 it farther than I have. But this tells us how
5 humans have very good intentions when it comes to
6 things like healthy eating, exercising, financial
7 management, not texting while we're driving, but
8 that doesn't mean that we necessarily follow
9 through on these actions. And it's not something
10 where we want to say humans make mistakes or are
11 fundamentally flawed, but it's just the way our
12 brain is designed. It means that we react to our
13 context.

14 So consider if this staircase and
15 escalator had been placed in slightly different
16 places, you might actually see a very different
17 outcome here. And that's something we see from
18 social psychology over and over again is that as
19 humans, we react disproportionately to our
20 environment. Now, that's actually good news from
21 a design perspective because it means that the
22 way we design things, the way we craft messaging

1 actually can have a lot of impact on how people
2 behave.

3 It's easier to imagine how people
4 might behave when we're designing tangible
5 objects because you can imagine how someone might
6 interact with them. It's absurd to imagine that
7 someone could use this fork and successfully lift
8 food to their mouth. It's absurd to think that
9 someone could use this teacup and teapot to
10 actually drink a steaming hot cup of tea.

11 It's harder to imagine how people
12 might be interacting with financial products, and
13 that's often because they're sometimes
14 intangible, and often the way that people
15 interact with them is subconscious. Even they
16 might not be aware of exactly why and how they're
17 making decisions. So as designers, we should be
18 using what is known in behavioral science about
19 human behavior to be able to better predict how
20 people might interact with my product.

21 I'm sure this study is also familiar
22 to everyone in the room. So over the past few

1 decades, there have been many explorations of
2 financial education as a way to increase
3 financial well-being. This meta-analysis back
4 from 2014 looked at over 200 studies of
5 traditional classroom-based workshops around
6 financial education and financial literacy. Now,
7 the general findings in that meta-analysis were
8 that, yes, these types of workshops can increase
9 people's knowledge in a measurable way.

10 Unfortunately, that doesn't mean that they
11 translate to a lasting change in behavior over
12 time.

13 And a more recent meta-analysis that
14 came out last December in 2018, again, reexamined
15 that set of studies, and they actually found two
16 examples of successful financial education
17 programs -- one with the U.S. Army, one a
18 Brazilian program conducted in high schools, and
19 found positive results from those studies. So I
20 think the takeaway here is not that information
21 doesn't matter. But why might some of these
22 programs not be successful?

1 There are a couple of reasons. One is
2 perhaps the information that I'm receiving isn't
3 relevant to my life or isn't translated into
4 something that I can apply. Often they teach
5 abstract concepts like the value of compound
6 interest or saving over time, but they don't
7 translate that into something I can do today in
8 my own life.

9 A second challenge is information
10 decay. As humans, we don't remember things
11 persistently throughout our lives. There's a
12 decay effect. So even if I learn something in an
13 eight-hour workshop, I may not remember it two
14 years later, especially if it's about a future
15 action that I might take.

16 (Laughter.)

17 MS. DAVIS: So knowing that, what are
18 some ways that we can prompt people not just to
19 understand, to learn, but also ideally take
20 action in the same moment to improve their
21 financial health?

22 And just to share a quick example from

1 ideas42, we worked with Alliant Credit Union.
2 it's a credit union based in Chicago but with a
3 national membership base where they rolled out a
4 new mobile remote deposit capture feature. We're
5 very excited about it. Sent out many
6 solicitations to their member base, and probably
7 not surprisingly to anyone in this room, most
8 people did not even try that new method of
9 depositing.

10 So our objective here was to think
11 about: how can we encourage members to try this
12 given that it's much more convenient to not go
13 into a branch or mail in your deposit and
14 continue using it over time? So we believe
15 strongly in not taking behavioral interventions
16 and throwing them into the field, but really
17 trying to understand the context.

18 So first we started looking at
19 existing data and we found that actually once
20 members used mobile deposit once, they were quite
21 likely to continue using it over time. So we saw
22 once a subset started depositing, they continued

1 persistently, which meant that we don't have to
2 sustain this behavior over time. Maybe we can
3 just get people to try it once, and there will be
4 some persistent effect.

5 We also started talking to members and
6 asking them their perceptions of mobile deposit.
7 At first, we thought that most of the answers we
8 would hear would be around things like trust or
9 data security or comfort with technology. But
10 instead, these were the kinds of answers we
11 started hearing. First was just that the app
12 wasn't top of mind. They remembered vaguely
13 there being some kind of mobile deposit thing,
14 but they couldn't recall, and they didn't think
15 about it at the moment when they actually might
16 use it.

17 So we designed a communication that
18 went out to members. It was personalized and
19 addressed to them. It highlighted some social
20 norms around other Americans using mobile
21 deposit, and it was signed by a real person from
22 Alliant Credit Union, so it felt personalized.

1 We wanted to send it in a large envelope, knowing
2 that often what distinguishes something in the
3 mail can be the size and the appearance of the
4 envelope, and that good things sometimes come in
5 large envelopes like college acceptance packages.
6 Unfortunately, that was cost prohibitive in the
7 real world, so instead we put some messaging just
8 on the outside of the check highlighting what was
9 inside.

10 And the thing inside was actually a \$5
11 starter check for people to try out mobile check
12 deposit. This was based on hearing from people
13 that, yes, they were interested in mobile
14 deposit, but when it came time to get that paper
15 check deposited, it was just easier to do what
16 they'd always done. This is status quo bias,
17 right? Even the thought of switching to another
18 method and the uncertainty and effort involved
19 can be prohibitive. So we put a starter check
20 inside the package, and we had very clear step by
21 step instructions of exactly what to do.

22 A third thing we found from members

1 was that they had tried the starter check --
2 sorry, they had tried the mobile deposit feature,
3 but it didn't work. And often these were
4 preventable things like the person putting it
5 down on too light of a surface for the check to
6 be captured. So we actually created a little
7 place mat where they could put the check right in
8 between the window and follow the instructions,
9 and they would already be able to see what
10 correct and incorrect capture would look like.

11 So this fun kit went out to members.
12 We randomly assigned members into a treatment
13 group that got this package as well as a control
14 group who got just standard messaging about the
15 value of mobile deposit generally. So this chart
16 shows mobile deposits per thousand members. It
17 does not include the starter check itself. So
18 you can see here where there was an initial
19 excitement effect after people got the starter
20 check, and it definitely dipped over time. You
21 can see there's a persistent increase in usage of
22 mobile deposit between the treatment and the

1 control group.

2 This ended up translating into
3 doubling adoption rates. It was about a 40
4 percent increase in mobile deposits relative to
5 other methods. And interestingly for Alliant, it
6 actually increased the total number of checks
7 deposited, not just deposited from mobile,
8 suggesting that it didn't just switch people in
9 terms of what channel they were using, but it
10 actually ended up bringing in more deposits,
11 which ended up making this more economically
12 sustainable for the credit union given that a \$5
13 starter check for every member can be a little
14 costly.

15 So that's a fun example where we have
16 a group of people who are maybe likely to be
17 using a feature but simply aren't following
18 through on that action. That's what we call the
19 intention action cap. But often when it comes to
20 financial health, there can be more complex
21 situations to tackle such as savings and debt
22 reduction, many of which Lindsay has already

1 talked about.

2 So I wanted to highlight one other
3 example which is a partnership with multiple
4 credit unions in the Pacific Northwest around a
5 program called the Financial Health Check. And
6 the basis for that financial health check was the
7 recognition that wealthy people have access to
8 very deep supports via wealth advisors, and not
9 everyone else does. And oftentimes, those
10 supports can be very specific, such as debt
11 counseling, but may not cover everyday things
12 like savings and basic debt reduction.

13 So the financial health check was
14 created as a moment for members to schedule time
15 with their credit union to make decisions and
16 take actions just around setting aside savings
17 for making reductions in their debt. We tested
18 in-person vision -- in-person sessions in an
19 earlier pilot and then tested a 30-minute phone
20 call in a second pilot.

21 We had live support from a human, and
22 I think importantly, that human could actually

1 mirror the member experience to see what they
2 were doing in online banking and help them
3 through those action steps.

4 They were able to, similar to a
5 financial coaching session, identify some
6 personal goals, labeling them in a really vivid
7 way, hopefully setting up a labeled savings
8 account for that goal, and then making a concrete
9 plan about how much of their cash flows could be
10 put aside on a monthly or weekly basis to reach
11 that goal.

12 And then they got support in real time
13 to set up an automated transfer or set up some
14 sort of reminder for the future for themselves,
15 knowing that members who are in more complex
16 situations would be routed to debt counseling or
17 a debt consolidation agency.

18 So the financial health check has
19 shown positive results on savings. We did a
20 randomized control trial and found positive
21 impact on the number of savings deposits. We saw
22 a positive impact on total dollars deposited,

1 although that was weaker in terms of statistical
2 significance.

3 We actually didn't see any impact on
4 debt probably because a large percentage of
5 members did not take debt actions and the ones
6 who did were often referred to outside agencies
7 to handle those more complex situations.

8 But I think we're in a moment now
9 where we do see this positive effect but we
10 really want to know is this impacting the people
11 who could benefit from it the most who may not
12 have 30 minutes to spend on the phone with
13 someone or an hour to come in in-person.

14 So we're doing some work now to think
15 about more scalable solutions and we're doing
16 some testing with an academic at University of
17 Washington who specializes in study of emotional
18 stigma and shame and thinking about what kind of
19 language makes someone more likely to engage.

20 So we're running some tests around
21 normalizing language to help members who might be
22 in financial distress and feel like it's not

1 stigmatized, it's normal, many Americans
2 experience this and hopefully make them more
3 likely to engage.

4 And here are my caveats at the end of
5 these two examples. In behavioral science we
6 find that there really aren't one size fits all
7 solutions.

8 There are themes, there are common
9 trends, but often people make the mistake of
10 taking a behavioral tool that worked in one
11 context and just blanketly applying it to other
12 contexts.

13 Here's where we really want to
14 emphasize the point of designing with communities
15 as opposed to four communities and really
16 listening to the barriers that people perceive in
17 their lives.

18 And I think a lot of those barriers,
19 some of them can be overcome with smart
20 behavioral design or messaging, some of them are
21 much deeper and core to the way products are
22 structured. And there's where I see a lot of

1 potential to change the way products are
2 delivered on the way that would have outsized
3 impact on outcomes.

4 So first we hear from a lot of
5 families about liquidity barriers, about being
6 concerned am I going to actually be able to
7 access my money when I need it when I'm managing
8 a very tight budget and tight cash flows.

9 This is a quote about someone not
10 having a bank account because they save their
11 money below the mattress. If there's an
12 emergency, the money is right there when you need
13 it.

14 And here, I think there are inroads to
15 be made around settlement speed of transactions
16 so that people can get their money quickly when
17 they need it in real time as well as what Andrea
18 referenced earlier about now, soon, and later,
19 about easing restrictions on accessing funds
20 from, for example, a standard savings account
21 where you might not be able to make more than six
22 withdrawals in a month. That alone can be a

1 deterrent to someone having an interest-bearing
2 savings account.

3 Secondly, around trust barriers, we
4 all know that many disenfranchised communities
5 rightfully have lack of trust in the financial
6 mainstream in wondering whether that money is
7 really going to where someone says it is.

8 We recently did some primary research
9 and talked with families who actually go together
10 in a group to the bank because of concerns around
11 those trust and not wanting to engage with people
12 who work in that bank as well as documentation
13 issues and being concerned about asking for
14 identification while they're in there.

15 And that gets to some of the
16 structural barriers. We're all aware of the very
17 real risks around documentation for people when
18 it comes to accessing these financial
19 institutions and we hear these stories over and
20 over again around even if there aren't actual
21 barriers there, the perception of barriers that
22 prevent people from engaging.

1 Finally, I wish I could have spent all
2 day today talking about scarcity. For those of
3 you who are familiar with the scarcity research,
4 it's really about how when someone is in a state
5 with limited financial resources our mind
6 naturally tunnels on that resource which is
7 missing, which means that we can be so trapped in
8 day to day financial management that we don't
9 have a sense of being able to breathe and step
10 back and plan for the future.

11 So knowing this context of scarcity,
12 I think, gives a slightly different lens to
13 behavioral design around both cutting costs of
14 participating in programs or cutting perceived
15 costs of participating as well as ways to really
16 create slack in people's lives whether that's by
17 helping them accumulate a financial cushion,
18 reduce debt, or additional income supports or
19 income subsidies that might benefit them.

20 I'll pause there and pass it over to
21 Amelia.

22 MS. ERWITT: Thank you and thanks to

1 everyone for remaining awake. I have the much
2 coveted position of the very last presentation at
3 the end of a long day, so I appreciate your
4 patience for that and I'll try to speed up a
5 little bit. I know we're low on time and I'm
6 sure you all have questions as well.

7 I'm Amelia Erwitt with the Cities for
8 Financial Empowerment Fund. I work with
9 Jonathan. We work with mayors and other local
10 leaders and their local partners to build
11 resident financial stability into the fabric of
12 local government.

13 And one of our key programs is the
14 Bank On initiative which I know many of you know
15 very well, so I won't go into too much detail on
16 what that is, but we'll just quickly kind of go
17 through currently today what the Bank On equation
18 looks like for us.

19 Really the CFE Fund is working to
20 negotiate safe and affordable banking accounts.
21 We currently have 36 accounts available in 22,000
22 branches in all 50 states and Washington, D.C.

1 As referenced earlier, many of you
2 around the table have been early partners in that
3 work.

4 We're working programmatically to
5 connect people into those accounts and then
6 supporting the almost 90 coalitions across the
7 country that make those programmatic connections
8 possible.

9 The programmatic connection points
10 come in a number of different ways as we've
11 discussed sort of earlier today including things
12 like our summer youth employment programs,
13 workforce development programs, one on one
14 financial counseling and coaching programs, et
15 cetera.

16 And as we're working with our partners
17 to make these integrations possible, we want to
18 be making sure that we're also informing the
19 interactions with the on the ground staff we're
20 having with unbanked folks in a research-based
21 way that we're really communicating in the best
22 way possible.

1 So the key goal with the research that
2 I am sharing with you this afternoon was to build
3 a more complete understanding of the financial
4 attitudes and goals of unbanked people and to
5 explore the most effective messaging themes that
6 could drive account adoption.

7 We're looking to, again, inform
8 messaging that Bank On coalitions, financial
9 counselors and other front line stakeholders can
10 use to convince people of the benefits of banking
11 and the benefits of Bank On-certified products.

12 So just quickly on the methodology, as
13 always, our starting point with all of this work
14 is with the FDIC and the National Survey of
15 Unbanked and Underbanked Households.

16 We worked closely with the FDIC,
17 particularly with Keith and his team in the early
18 days of this work. By looking at segmenting the
19 unbanked and specifically what segment of
20 unbanked people were unbanked for reasons that
21 could be moved by a communication strategy.

22 So in other words, we focused on

1 people with a motivational barrier for opening an
2 account and eliminated from our research anyone
3 who said that they have a structural barrier for
4 remaining out of the system like being on
5 ChexSystems.

6 We conducted focus groups in both
7 English and Spanish in four cities across the
8 U.S. We did some in depth inter -- phone
9 interviews with rural unbanked people and then
10 two different rounds of surveys, national digital
11 surveys, oversampling for Spanish speakers and,
12 again, sort of pegging that research sample to
13 the FDIC research sample as well.

14 And all of that was really got us to
15 these key messaging things that are up on the
16 screen that we really dug into in the second
17 survey, tools for easy banking, maintaining
18 control, rethinking the relationship and helping
19 to achieve goals, and I'll get into that in a
20 minute.

21 I have just one note as I go through
22 this, across the focus groups and the surveys,

1 the respondents had very little familiarity with
2 the credit unions and there was no real
3 noticeable difference between perceptions about
4 credit unions.

5 And so we worded the research
6 questions to be specifically around banks.

7 Okay. Now to jump to our high-level
8 findings. And you obviously have the slides in
9 your packets. You also have I should say the
10 draft research brief behind my presentation with
11 more detail. It's not been published yet, so
12 your eyes are the first ones on this research, so
13 please be kind.

14 So the first finding that we found was
15 that messaging can really change minds. Unbanked
16 people in both the focus groups and the phone
17 interviews -- well, and the surveys, they all had
18 very negative feelings about banks starting out,
19 which is not surprising.

20 However, across both the English and
21 Spanish speaking audiences, almost half of those
22 surveyed were open to changing their minds about

1 banks through messaging, and this was especially
2 true for people who had previously had and then
3 closed a bank account. This was really
4 surprising for us.

5 We had kind of designated that group.
6 We were calling them burned by a bank internally
7 for a while thinking those would be the hardest
8 to get back into the system if they had had a
9 negative experience in the past. But much to our
10 surprise, they were actually among the most
11 interested in rejoining the banking system once
12 they heard about some of the changes in the
13 certified products.

14 Just to orient you to these graphics
15 a little bit and on the left you'll see -- on the
16 left of each of these squares, you'll see where
17 each of the groups started in terms of the three
18 factors up there: favorability towards banks,
19 interest in learning about banks, and intent to
20 get a bank account.

21 And on the right is there they ended
22 after being exposed to our messages. So the

1 overall trend was positive across all of the
2 categories and the little blue arrows indicate
3 where the gains were statistically significant.

4 Overall, favorability towards banks
5 increased -- increased, rather, by a
6 statistically significant 17 percent after
7 hearing the messages. And intent to get a bank
8 account increased 14 percent overall.

9 And again, this was even more true for
10 the Spanish speakers, those who are younger and
11 surprisingly those who had had an account in the
12 past.

13 So a couple more high-level findings.
14 The successful messages emphasize kind of two
15 basic topics. One are short-term goals and the
16 other being keeping money secure.

17 And we sort of structured the report,
18 as you'll see as sort of a myth-busting
19 structure. But really looking at this first myth
20 on this slide, the under -- you know, the
21 original thinking that the best way to convince
22 unbanked people about the importance of account

1 is sort of looking again to the later savings,
2 the home ownership, the starting a new business
3 thing, which, you know, many coalitions have been
4 messaging that way.

5 In reality, although of course people
6 do connect, having those bigger assets with also
7 having a banking relationship, that wasn't
8 motivating right now. And so really needing to
9 focus on the right now, what are goals that you
10 have today, building, savings, getting out of
11 debt, improving your credit score, and how can we
12 be convincing that opening a bank account is a
13 good early step towards those shorter-term goals.

14 The second myth that we hear pretty
15 often is that those out of the system can't be
16 well-served by the traditional system and,
17 therefore, may be better served by technology, by
18 apps, by Fintech.

19 What we really found were that the
20 specific tangible features really well associated
21 with mainstream banks were the things that
22 resonated most with the people surveyed, things

1 like fraud protection, having a debit card, and
2 access to direct deposit, these were the bread
3 and butter issues that people were most
4 interested in. And so that was sort of
5 interesting to learn.

6 So how we figured out what resonated,
7 this is another complicated and, again, I
8 emphasize draft, a draft, it's not very pretty.
9 We will make it look nicer when we actually
10 publish this.

11 But just to kind of give you a sense,
12 the message themes that were tested and sort of
13 where they fell -- so just to, again, to orient
14 you to this graph, the Y axis shows the average
15 message score in terms of believability and
16 favorability. And then the X axis shows how
17 strongly the message is correlated with actually
18 changing your mind about opening an account.

19 And so the red box in the bottom left
20 corner, these are messages that both lack
21 developments and credibility, and they also
22 didn't motivate. You know, even if they were

1 true, they wouldn't motivate anybody to open an
2 account.

3 This is very interesting to see how
4 lowly -- how poorly low cost scored on both of
5 these metrics. It was neither believable nor
6 motivating.

7 (Laughter.)

8 PARTICIPANT: In that order.

9 (Laughter.)

10 MS. ERWITT: The green box on the top
11 left, those messages were believable and
12 important but they didn't motivate action.

13 The yellow box, they motivated action
14 if they were -- if you could believe it, but we
15 really see this as sort of an opportunity area if
16 we can really work on the credibility of things
17 like banks are for everyone, which again echoes a
18 theme that many Bank Ons have used for many
19 years. It's sort of highly motivating but not
20 believable.

21 And then the top right blue box, these
22 were the most credible and relevant to the survey

1 respondents and they were motivating to bank
2 account adoption. And so these are the key
3 messages that were really focused on leveraging.

4 The category that you can see in the
5 small text is sort of what they literally were
6 and what the messages tested were. But the kind
7 of overall categories that we've pulled from
8 those messages were around those three that I
9 mentioned earlier. Those were easy banking,
10 maintaining control and helping to achieve goals.

11 So then we -- so we're going to dig
12 into one of those examples. This is the
13 maintaining control example. And we've got this
14 for each of the themes in the report and more
15 background and detail. But in the interest of
16 time, I'm just going to dig into the theme around
17 maintaining control.

18 So in addition to rating the messages
19 in the way that I just showed you around
20 believability and motivation, we also look very
21 closely at the actual words that coalitions could
22 be using to resonate with individuals.

1 So respondents were asked to highlight
2 the words they found most compelling in each of
3 these messages. So the bigger words are the ones
4 that were highlighted most frequently.

5 so maintaining control, you know,
6 scored well because losing control of money
7 through things like fraud and overdraft fees was
8 a barrier that came up over and over again in
9 both the focus group and the survey work we did.

10 The fraud messages were particularly
11 appealing to Spanish speakers, and the overdraft
12 messages were more resonant with the English
13 speakers.

14 So then finally just in sort of
15 summary, the winning themes, again, that we
16 pulled out, tools for easy banking, really
17 reinforcing how direct deposit and other tools to
18 manage and check money can make banking easy and
19 stress free were very compelling.

20 Maintaining control, explicitly
21 highlighting the no ability to overdraft
22 whatsoever and fraud protection really addressed

1 the central concern among unbanked people about
2 being hit with unexpected fees and having their
3 balances threatened.

4 And then highlighting achievable
5 short-term goals, the idea of taking short-term
6 steps like savings and paying down debt rather
7 than focusing on bigger picture, further away
8 stuff.

9 Just a couple additional
10 considerations that weren't too surprising, but
11 keeping a positive tone is really important,
12 focusing more on how a bank account can help you
13 achieve your goals rather than using more things
14 like fear or urgency to say you're behind, you've
15 got to act now to kind of catch up.

16 Again, the short-term goals really
17 focusing on the specific and tangible account
18 features that are available, debit card, direct
19 deposit, that type of thing and being explicit on
20 cost.

21 Hidden fees are really top of mind for
22 people. So having a very transparent cost

1 structure that -- and being clear on that, that
2 is important.

3 And then finally, the most persuadable
4 groups, those who are -- were previously banked,
5 Spanish speakers and the slightly younger
6 demographic.

7 So as I mentioned, the research is
8 still unpublished. We welcome your feedback and
9 questions as we continue to refine what we put
10 other there.

11 In addition to finalizing this report,
12 we're also going to be making a number of tools,
13 talking points, and things for front-line staff
14 to actually be implementing some of these
15 findings out in the field.

16 So any reflections or thoughts you
17 have on that, we -- you're welcome to.

18 MR. HALL: So we're open to any
19 questions that you have.

20 Maurice?

21 MEMBER JONES: On the America Saves
22 piece, how young do you target? Is your age

1 range --

2 MS. FERGUSON: Yeah. So we -- America
3 Saves, the campaign, the parent campaign is
4 targeted for adults 18 and above, but we do have
5 America Saves for young workers, which targets
6 the 16 to 24 group with the custom messages for
7 that specific group.

8 So we're still kind of using the same
9 objectives, but we're changing them so that they
10 resonate with that population.

11 MR. HALL: A follow-up, so your data
12 top savings goes --

13 MS. FERGUSON: That's across all of
14 our campaigns.

15 MR. HALL: Including the young --

16 MS. FERGUSON: Including the young
17 workers.

18 MR. HALL: You know, this is
19 interesting education doesn't show --

20 MS. FERGUSON: But --

21 MR. HALL: -- theme, you know --

22 MS. FERGUSON: Yeah.

1 MR. HALL: -- so I'm just trying to --

2 MS. FERGUSON: And when you pull out
3 the young workers data alone, education kind of
4 comes and goes as one of the top savings goals.

5 We see consumer product as a top
6 saving goal for young adults, which is fine. I
7 mean, we want them to have a savings plan for
8 whatever it is that their heart desires. We just
9 want them to have a plan and a goal.

10 MR. HALL: Yep. Don.

11 MEMBER GRAVES: Just a few quick
12 questions or comments.

13 Lindsay, thanks for -- well, thank you
14 all for your presentations. They were great, as
15 were all the others today.

16 My understanding is that America --
17 the America Saves designation you get that by the
18 change in deposits or -- amount of savings during
19 the America Saves Week. Is that -- am I correct
20 on that or no?

21 MS. FERGUSON: Yeah. It's an
22 application process where the financial

1 institution reports on their activity during
2 America Saves Week.

3 MEMBER GRAVES: I don't know, for
4 those banks who have a very robust program that
5 is focused on increasing the savings, we have a
6 big financial wellness program, a platform when
7 we -- especially after we acquired HelloWallet.

8 For us, that is a yearly thing. It
9 doesn't coincide with that one week. So I would
10 just suggest that there are a number of banks,
11 some of whom are in the room today that might not
12 -- it might not be the best way to incentivize us
13 to be a part because that one week for us is --
14 well, it's an important week, obviously, because
15 of tax season.

16 It's not as -- much more important
17 than any of the other weeks. So just --

18 MS. FERGUSON: No, good feedback.

19 MEMBER GRAVES: Katy, thank you for
20 your presentation. You don't happen to know the
21 demographic breakdown of the 90 percent of
22 non-mobile depositors, the folks in that first --

1 MS. DAVIS: We don't. So we did not
2 have reliable data on age, race, or ethnicity, or
3 income level, actually.

4 MEMBER GRAVES: And you don't -- do
5 you have any information on the types of mobile
6 devices or phones that they were using, that sort
7 of thing, because I suspect -- I don't know for
8 certain, but I suspect that there were issues
9 around -- and certainly age and income level as
10 well as the types of mobile devices that they
11 might have been using and the ability to use
12 those effectively for. But that's just my
13 assumption -- presumption.

14 MS. DAVIS: I would not be surprised.
15 I would say in other studies that we've done
16 around forms of digital engagement in the
17 developing world, we've actually found very
18 surprising and counterintuitive trends around age
19 that don't match our often beliefs about older
20 people not using technology.

21 (Off mic comments.)

22 (Laughter.)

1 MS. DAVIS: But in this study, we
2 couldn't look at that. In the --

3 MEMBER GRAVES: Who's talking about
4 young people?

5 (Laughter.)

6 MS. DAVIS: In the Alliant study, with
7 the data that we had available, the only
8 predictor of whether someone used mobile deposit
9 was whether they had downloaded the app to begin
10 with on their phone, sort of the only helpful
11 predictor.

12 MEMBER GRAVES: That's great.

13 And then Amelia, when does this become
14 public?

15 MS. ERWITT: I think very soon. We
16 actually have, at the end of this month, a
17 grantee convening where we're going to be
18 distributing some of the tools I mentioned, the
19 practitioner tools. So as soon as we get any
20 final thoughts from you all, I think we're going
21 to print on this. So it'll be out soon.

22 MEMBER GRAVES: Thank you.

1 MR. HALL: Yes, Wade.

2 MEMBER HENDERSON: Thank you.

3 This question is for Lindsay, but I
4 welcome the input of anyone, and it's about
5 childhood savings accounts.

6 A few years ago there seemed to be a
7 sort of growing sense that investments in
8 childhood savings accounts for newborns, an
9 investment of perhaps as much as \$500 held in
10 trust until the newborn reached majority age, 21,
11 18, whatever, and restricting the use of that
12 money for some, you know, laudable goal,
13 education, a house, some other, you know,
14 long-term goal was one way of creating wealth and
15 helping to limit the wealth gap among the poorest
16 of the poor.

17 I'm not sure whether that's fallen
18 into disfavor or not, but I haven't heard nearly
19 as much clamor about it as there was a few years
20 ago when there was talk that I think England was
21 thinking about making these investments in other
22 communities.

1 Obviously the population of people
2 that would be targeted in this country are far
3 too poor to offer that resource on their own.
4 And the temptation to use it over the life of the
5 child is obviously very great, so there would
6 have to be some limitation held in trust of some
7 kind for purpose might be there.

8 Is there any research that your
9 organization has developed on this issue? Is
10 there any deeper analysis that you can offer
11 about the efficacy of these childhood savings
12 accounts? And where do you think that might
13 stand currently in the public debate around
14 policy?

15 MS. FERGUSON: Yeah. And I'm going to
16 punt this to any of my panelists because we
17 currently have not done research on child savings
18 accounts specifically, but I know that work has
19 been researched.

20 Prosperity Now has done a lot of it.
21 Some of our municipalities are doing the child
22 savings accounts, so I'm going to punt the answer

1 over to my colleagues.

2 MS. ERWITT: I think you should ask
3 your fellow committee members in --

4 MEMBER HENDERSON: I think I should.

5 (Laughter.)

6 MS. ERWITT: There are some experts
7 around the table here on your side. Yeah.

8 MS. DAVIS: I would add a quick
9 thought.

10 MEMBER HENDERSON: Yeah.

11 MS. DAVIS: I think to take Jose's
12 words away from him, there seem to be two
13 positive models of college savings accounts, one
14 which is an account at birth with a specified
15 amount of money --

16 MEMBER HENDERSON: Yeah.

17 MS. DAVIS: -- one which is in a
18 demand deposit account but with more continual
19 engagement over time because the family can
20 contribute. Both have been found to have
21 positive impact on college-going in some way.

22 So I think those are two different

1 models that have some evidence behind them even
2 if it's not a randomized control trial.

3 And then I would add an example from
4 actually the cash transfer world. You've done a
5 lot of work with cash transfer programs
6 internationally where the traditional model was
7 making them conditional upon a specific use.

8 And we've actually tried different
9 ways of delivering them where the cash is
10 unconditional but it's labeled for a specific
11 purpose, for example, education or health.

12 And we find that just by labeling it
13 and framing it for that purpose, it has just as
14 much positive impact as having it actually
15 designated and restricted for that purpose.

16 I think there could be an in between
17 solution there where you still have some
18 flexibility around how to use it, but it also
19 achieves its original goal.

20 MEMBER HENDERSON: That's very
21 helpful. And so let me do one follow-up.
22 Jonathan, this is sort of directed at you. And

1 since I'm leaving, I feel free to throw new
2 assignments around to all my colleagues who are
3 here.

4 Look, I would think that the FDIC, if
5 there were any effort to examine this issue of
6 the efficacy of child savings accounts, I know
7 that the imprimatur of this agency obviously
8 carries a lot of weight.

9 In communities where they are
10 struggling to get a toehold on a build in wealth
11 providing resources for education and training
12 going forward, a study of the FDIC suggesting
13 that this may be a model that community
14 foundations or other philanthropies might look to
15 as a way of helping to build wealth among the
16 poorest of the poor would carry greater weight
17 than just the casual conversation among, you
18 know, people who sort of dabble in this area.

19 And I would think that given the
20 importance of this issue and the widening wealth
21 gap that this might be something that you would
22 take a look at. It also has implications for the

1 unbanked and the under-banked.

2 So I'll leave it there as to whether
3 there could be a follow-up study that would show
4 some efficacy in this area. It would be helpful
5 if the FDIC would look at it.

6 MEMBER LEVERE: I don't know if -- I
7 mean, there are many researchers who are doing in
8 depth analysis of this. Willie Elliott, the
9 University of Michigan, has done extraordinary
10 research, Michael Sheridan, we have been lucky
11 from the very first day we worked on children
12 savings accounts that we have had a broad range
13 of academic researchers taking this every step of
14 the way.

15 And I just say live by Jose's
16 groundbreaking program. Last year we had more
17 children savings accounts opened than in any time
18 in the history of this initiative and we have
19 Cory Booker with a major proposal that many
20 people worked on explicitly to address the racial
21 wealth divide called baby bonds.

22 So Wade, I just want to say that

1 things are very healthy --

2 MEMBER HENDERSON: Good.

3 MEMBER LEVERE: -- despite some of the
4 barriers we're facing.

5 MEMBER HENDERSON: Yeah, yeah, yeah.

6 MEMBER LEVERE: But there's -- I have
7 to say that this is one of the areas where we
8 started paired with researchers, so we have
9 incredible data, not just on the financial
10 impacts but the aspirational changes, the child
11 save -- the college saving mentality that happens
12 with households.

13 I'll say one other thing before Jose
14 jumps in. When we did the first experimental
15 site with the children's savings demonstration,
16 we had five Head Start centers right outside
17 Detroit.

18 We found that the majority of those
19 parents had given up on their child going to
20 college by age 3, and they had given up because
21 they had exactly the wrong information on what
22 the net cost of college would be for their

1 household. And if they went to community college
2 or public college, they knew what it would cost
3 to go to Harvard, and so they thought I can't
4 disappoint my child, I could never pay for that.

5 Subsequently, we recruited Martha
6 Kanter, the former -- yeah, well, you were at our
7 wedding together. And she said every step of the
8 way, middle school, people had the wrong idea.
9 This is something they track all throughout
10 education. So just to say there's a lot, but
11 thank you for being a booster.

12 MEMBER HENDERSON: Yeah, yeah.

13 MEMBER CISNEROS: I'll echo the thank
14 you, the gratitude, Wade. There is a lot going
15 on. There's a number of cities that have
16 launched programs very similar to San
17 Francisco's.

18 There's a number of states now. There
19 are a growing number of states and I'm happy to
20 add the State of California with our new governor
21 who has dedicated \$50 million --

22 MEMBER HENDERSON: Wow.

1 MEMBER CISNEROS: -- of this year's
2 state budget to be split amongst two different
3 models of children savings account programs.

4 But that all being said, I very much
5 second your request to the FDIC --

6 MEMBER LEVERE: Yes.

7 MEMBER CISNEROS: -- to get involved
8 in this --

9 MEMBER HENDERSON: Yeah, yeah, yeah.

10 MEMBER CISNEROS: -- effort because
11 with all these different efforts going on and
12 growing and many of them are getting set up in
13 slightly different ways or dramatically different
14 ways, we really could use more research, more
15 knowledge and more cold hard facts to help guide
16 us as we want to do more and more good things to
17 make sure we're doing things that are going to
18 make a difference.

19 MEMBER HENDERSON: I'm really excited
20 to hear both of you talk about this. It's
21 obviously something that's grabbed the
22 imagination of many who are trying to think about

1 how you cut through that wealth gap divide and
2 the, you know, racial wealth gap divide in
3 particular and trying to aggregate that data,
4 presenting it in a coherent way.

5 Giving that the implementer of the
6 FDIC could carry some real weight and policy
7 circles around the country, so I hope that when I
8 come back as a visitor, perhaps this will be --

9 MEMBER LEVERE: But you're --

10 (Laughter.)

11 MEMBER LEVERE: -- right, Wade?

12 MEMBER HENDERSON: Yes. Thank you so
13 much. I appreciate it.

14 MR. HALL: I think what I heard either
15 Andrea or Jose say before is that in some of the
16 research -- I'm not real sure, but I heard
17 someone say this is that a child is more likely
18 to go to college -- seven times more likely to go
19 to college if they have anything in savings.

20 It doesn't matter if it's \$100, if
21 it's \$500. It's certainly something that it
22 encourages, it gives hope to specifically

1 children of color that would not think to have
2 the ability of -- or the parents think they
3 wouldn't have the ability, the financial
4 capability to send them to school.

5 So whether it's true or not, whether
6 I heard that from one of you or not, I did hear
7 it, and I think it is -- it's hopeful, it's
8 beneficial.

9 Jose, I was talking about seven times
10 a kid more likely --

11 MEMBER CISNEROS: Seven times more
12 likely to go to college if their families engage
13 with the account, which builds -- making deposits
14 in account -- in an account on an ongoing basis
15 builds an identity, a savers identity, I'm a
16 person who saves.

17 And if that account has the name
18 college savings account and the name of the child
19 on the account, then it -- that saver's identity
20 gets translated to a college going identity. I
21 am a -- because I save for college, I am a person
22 who is going to college.

1 MEMBER LEVERE: Can I ask one other
2 thing?

3 MR. HALL: Sure.

4 MEMBER LEVERE: One of the most
5 fascinating debates we've all had -- and this is
6 where we need numbers -- is every time they do
7 the unbanked and the under-banked when you ask
8 people the reason why they are unbanked, the most
9 common answer is I don't have enough money. And
10 that has always frustrated all of us because we
11 knew there is something behind it.

12 I'd love our three panelists to then
13 say how do we get deeper than that answer.

14 MR. HALL: A good question.

15 MS. FERGUSON: Well, I can start us
16 off. And since we are a social marketing
17 campaign and just use a lot of messaging, what we
18 tend to say is saving is a habit, not a number
19 and encouraging people that it doesn't -- we've
20 all heard this, but reiterating that message \$5 -
21 - savings is not a number. It's a habit. It's
22 an identity.

1 So in regards to what we're doing to
2 kind of tackle that challenge is we're really
3 focusing on those types of messages when we talk
4 about saving and taking financial action with our
5 savers.

6 It's not the answer to everything, but
7 that's kind of what we're doing.

8 MS. ERWITT: I would just add that, so
9 we heard that a lot, again, reiterated in our
10 focus groups, for sure and in the survey as well,
11 and I think it's -- you know, it's really kind of
12 fed into some of the messages that we developed.

13 And in the report you'll see literally
14 spelled out all of the messages that we tested,
15 and some of them got to a bit of that.

16 But really, it -- for us, it drove
17 home the point about emphasizing the short-term
18 goals. Not having enough money, you know, maybe
19 one day I'll have enough money, I'll buy a -- you
20 know, I'll think about purchasing a home and
21 having these sort of longer-term aspirational
22 things, and that's the thing that they connect

1 with a bank account.

2 And so trying to figure out a way that
3 we could be making a better case for how
4 short-term goals could also be achieved with
5 entering the system and that taking a first step
6 of getting an account leads to short-term
7 achievements rather than being so connected with
8 like one day I'll be there and then I'll consider
9 it.

10 So you know, I think it's more about
11 the whole package. It's not -- you know, we've
12 also been frustrated by, you know, what does it
13 mean I don't have enough money. We know how low
14 --

15 MEMBER LEVERE: Right.

16 MS. ERWITT: -- these, you know,
17 balances can be in a formal account.

18 And so I think being very clear on
19 cost structure, being transparent on what that
20 means, and then, again, connecting starting with
21 a bank account is the first step in a series of
22 short-term goals is something that we can do a

1 better job of communicating.

2 MR. HALL: Thank you. Because of
3 time, we're going to probably cut it off. All
4 right. We'll turn it over to Jonathan. Thank
5 you.

6 DIRECTOR GRUENBERG: And I've always
7 thought, you know, the second most frequent
8 response to the question why don't you have a
9 bank account is the fees and minimum balances
10 associated with an account. I've always felt
11 there was a close connection between the first --

12 MEMBER LEVERE: Yeah.

13 DIRECTOR GRUENBERG: -- answer and the
14 second.

15 MEMBER LEVERE: Yeah.

16 DIRECTOR GRUENBERG: They don't think
17 they have enough money to make it worthwhile
18 because they're concerned that the cost of the
19 account is going to actually outweigh the -- and
20 in a sense trying to deal with that always seemed
21 to me to be threshold.

22 MEMBER MINTZ: And the just saying low

1 cost --

2 DIRECTOR GRUENBERG: And the safe

3 account --

4 MEMBER MINTZ: -- doesn't ring true.

5 MEMBER LEVERE: Doesn't do it.

6 MEMBER CISNEROS: Yeah.

7 MEMBER MINTZ: Right?

8 MEMBER CISNEROS: Yeah.

9 MEMBER MINTZ: You have to be more
10 explicit.

11 MR. MILLER: So thank you very much to
12 the panel. I'll just observe -- that we spent a
13 lot of time in this committee building the safe
14 account standards promoting the idea of a safe
15 account.

16 We now have, as Amelia pointed out,
17 banks in all 50 states that offer the safe
18 account. We have a -- we have banks that cover
19 most of the -- you know, the vast majority of the
20 population.

21 I think what this panel has done is
22 given us a set of tools to think about how now we

1 can drive consumers to those accounts,
2 particularly those consumers who are unbanked.

3 So really helpful panel. Thank you
4 very much. And to close it up, let me hand it
5 back to the Chairman.

6 CHAIRMAN MCWILLIAMS: Thank you very
7 much. I would suggest that you -- as you go to
8 your clients and your members you can do what I
9 did and tell them to lie to their kids. It works
10 wonderfully.

11 My daughter until she was probably 14
12 was convinced that she won't get into a good
13 college if she doesn't save money. And the
14 causality wasn't you can't pay for college. You
15 won't get into a good college until her friend
16 said what. And I never invited the friend back
17 to the house.

18 I want to thank you all for taking the
19 time. I know how busy you are and the work that
20 you do in all of your cases translates into
21 something on the ground that's tangible and real.

22 And for you to take the time to travel

1 and spend time with us and to inform our policy
2 is extremely valuable to us and something that I
3 personally am very grateful to all of you for
4 doing.

5 I'm grateful to all of the presenters.
6 You work on amazing stuff and it's exciting. I
7 wish I were younger and the opportunities would
8 have been endless in this space to actually
9 engage with a lot of things.

10 Now that I am not your age -- we'll
11 just leave it at that, and I can barely run from
12 a gate to a gate whereas my friends go -- I
13 marvel at the work that your groups are doing and
14 your organizations are doing in this space, and
15 thank you for that.

16 Before everyone leaves, I would like
17 to make sure that we all know that the National
18 Interagency Community Reinvestment Conference, an
19 interagency conference focused on CRA that is
20 held every two years, will be held on March 9th
21 through 12th in 2020 in Denver.

22 We encourage broad participation of

1 all stakeholders, bankers, CDFIs, community
2 groups, for- and non-profit developers, and
3 anyone else with a stake in the growth of
4 economic and housing opportunities in our
5 communities. And I suspect we'll see some of you
6 there as well.

7 Finally, I know our staff is in touch
8 with the members to schedule our 2020 meetings.
9 In the meantime, we'll work on the agenda.

10 I thought the agenda for today was
11 excellent. We had excellent presentations today.
12 I'm very grateful for that. The discussion was
13 so robust. Even when I wasn't here, I was able
14 to watch on the screen as I had my conference
15 calls and I had to mute the phone and turn the
16 volume up a couple of times, but I won't tell you
17 who those calls were with because otherwise
18 you'll tell on me.

19 Thank you all, again, for coming here
20 today. For the members, if we won't see in this
21 capacity, we look forward to seeing you in other
22 capacities. And to the members of the committee

1 who are new to us, welcome and thank you all.

2 And I can't wait to see you again.

3 Thank you.

4 (Applause.)

5 (Whereupon, the above-entitled matter

6 went off the record at 4:00 p.m.)

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Before: FDIC

Date: 10-22-19

Place: Washington, DC

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