Minutes

of

The Meeting of the FDIC Advisory Committee on Economic Inclusion

of the

Federal Deposit Insurance Corporation

Held in the Executive Dining Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

March 28, 2007 - 8:42 A. M.

The inaugural meeting of the FDIC Advisory Committee on Economic Inclusion ("ComE-IN" or "Committee") was called to order by Sheila C. Bair, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation ("Corporation" or "FDIC").

The members of ComE-IN present at the meeting were: Diana L. Taylor, ComE-IN Chairman and immediate past New York State Superintendent of Banks; Ted Beck, President and Chief Executive Officer, National Endowment for Financial Education; Kelvin Boston, Executive Producer and Host of PBS' *Money wise with Kelvin Boston*; Martin Eakes, Chief Executive Officer, Self-Help/Center for Responsible Lending; Lawrence K. Fish, Chairman and Chief Executive Officer, Citizens Financial Group, Inc.; Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen AME Cathedral of New York; Ester R. Fuchs, Professor, School of International and Public Affairs, Columbia University; Ronald Grzywinski, Chairman, ShoreBank Corporation of Chicago; Wade Henderson, President and Chief Executive Officer, Leadership Conference on Civil Rights, and Counselor to the Leadership Conference on Civil Rights Education Fund; Alden J. McDonald, Jr., President and Chief Executive Officer, Liberty Bank and Trust Company, New Orleans, LA; Frederic S. Mishkin, Governor, Federal Reserve System; Manuel Orozco, Senior Associate at the Inter-American Dialogue, and Senior Researcher, Institute for the Study of International Migration, Georgetown University; Maria Otero, President and Chief Executive Officer, ACCION International; John W. Ryan, Executive Vice President, Conference of State Bank Supervisors; Robert K. Steel, Under Secretary of the Treasury for Domestic Finance, U.S. Department of Treasury; Elizabeth Warren, Leo

Gottlieb Professor of Law, Harvard University; and Deborah C. Wright, Chairman and Chief Executive Officer, Carver Bancorp, Inc. Erica F. Bovenzi, Designated Federal Officer for the Committee and Deputy General Counsel of the Federal Deposit Insurance Corporation, was also present at the meeting. Committee member Peter Tufano, Sylvan C. Coleman Professor of Financial Management, Harvard Business School, and Senior Associate Dean and Director of Faculty Development, was absent from the meeting.

Martin J. Gruenberg, Vice Chairman of the Corporation's Board of Directors, and Thomas J. Curry, Director (Appointive) of the Corporation's Board of Directors. Also attending the meeting from among Corporation staff were John F. Bovenzi, Steven O. App, Alice C. Goodman, Jesse O. Villarreal, Michael H. Krimminger, Robert W. Mooney, Mindy West, Joan van Berg, Valerie J. Best, and Robert E. Feldman.

Chris Larsen, Chief Executive Officer and Co-Founder, Prosper Marketplace, Inc.; Steven T. Bigari, President and Chief Executive Officer, America's Family, Inc.; Norb Kaczmarek, Chairman, Pennsylvania Credit Union Association and Chief Executive Officer, Erie Federal Credit Union; Michael Wishnow, Senior Vice President, Pennsylvania Credit Union Association; and Laurie Kennedy, Associate Counsel, Pennsylvania Credit Union Association, also attended the meeting.

Committee Chairman Taylor presided at the meeting.

Chairman Bair opened the meeting by noting that its focus would be the small-dollar loan market, an area she observed her personal research had shown would benefit from more competitive pricing and one in which banks have sufficient expertise and cost structure to play a significant role. After providing a brief overview of the meeting agenda, Chairman Bair introduced Vice Chairman Gruenberg and Director Curry.

Vice Chairman Gruenberg expressed thanks to Chairman Bair for her leadership on the issue of small-dollar loans and provided a historical perspective on the topic.

Committee Chairman Taylor then welcomed Committee members, advising that meetings of the Committee are open to the public, and that the Committee would be pleased to receive any written comments from the public. She also reviewed the Committee's charter, noting its purpose of providing advice and recommendations on initiatives to expand access to banking by underserved populations. Committee Chairman Taylor then introduced the first speaker, Chris Larsen, Chief Executive

Officer and Co-Founder, Prosper Marketplace, Inc. ("Prosper"), and co-founder and former Chairman and Chief Executive Officer of E-LOAN.

Mr. Larsen began his presentation by showing a short video clip of a story on Prosper produced by CBS Evening News. He indicated that Prosper was akin to an ebay for money, providing an auction platform where anyone who wishes to borrow money, if they have a bank account, a social security number, and a credit score of 520 or higher, can create a listing and anyone with $50 or more to lend can bid on a listing. This open market infrastructure, he observed, allows average citizens to participate in consumer credit markets and reap the benefits of the potential for large profits and individual lenders to decide why and to whom money should be allocated. He further indicated that Prosper seeks to leverage the power of groups and community, with personal reputation acting as a powerful motivator for repayment of loans.

Mr. Larsen advised that approximately 15 percent of Prosper's loans are sub-prime; that approximately 30 to 35 percent of loans are prime, with the majority of loans falling into the near-prime category; and that the majority of borrowers appear to use Prosper loans as a replacement for credit card debt, to finance small business startups, or as a replacement for payday loans.

Mr. Larsen provided a detailed account of Prosper's program.

The Committee members, Vice Chairman Gruenberg, and Mr. Larsen then discussed at length additional details of Prosper's program and whether it offered a platform for meeting the Committee's objective. In response to questions from Committee members, Mr. Larsen elaborated on Prosper's lenders, the disbursement and collection process, and the companies used by Prosper to obtain credit scores. Governor Mishkin noted the importance of low transaction costs for small loans after taking note of Prosper's low loan origination expenses. Mr. Grzywinski observed that international micro lending programs owe their success to tight community cohesion and the threat of penalties to other community members if an individual defaults on a loan. Mr. Larsen confirmed that Prosper's lending community effectively models such behavior.

Committee Chairman Taylor announced that the meeting would recess briefly to allow set up for the next speaker. Accordingly, at 10:07 a.m., the meeting stood in recess.

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The meeting reconvened at 10:19 a.m. that same day, whereupon Committee Chairman Taylor introduced Steven T. Bigari, President and Chief Executive Officer, America's Family, Inc.

Mr. Bigari began by noting that the financial system as it relates to the poor is broken and that his establishment of America's Family, a non-profit organization that partners with employers and community groups to assist the working poor, grew out of a desire to help transform the economic model for such individuals. Introducing his paradigm for social change, Mr. Bigari stated that there were three elements: inspiration, instigation, and innovation. Applying the paradigm to the issue of providing mainstream financial services to the unbanked, he presented to the Committee an innovation he referred to as EZ Bank. He described EZ Bank as a sort of a kiosk, similar to the VCOM self-service terminals placed in 7-Eleven stores by Pantel Systems, Inc., that would allow users to cash checks, pay bills, and process money transfers for reasonable transaction fees. He suggested that the EZ Bank kiosks could be placed by banks on the premises of employers providing access not only to unbanked employees, but also to their unbanked customers.

Mr. Bigari next discussed the model that America's Family uses to help manage the relationship between an employer and EZ Bank that incorporates advocacy, association, capitalization, transportation, and scholarship.

In response to a question from Chairman Bair on employer lending, Mr. Bigari noted that hundreds of leading employers currently offer lending programs to their employees and that such programs typically charge no interest and require direct deposit of paychecks and periodic automatic payments.

At the conclusion of Mr. Bigari's presentation, the Committee members and Mr. Bigari discussed how best to identify opportunities for financial institutions to meet the needs of the underserved population through employer/employee relationships, community-based programs, local governments, school systems, and churches.

Next, Robert W. Mooney, Acting Deputy Director, Community Outreach, Division of Supervision and Consumer Protection, FDIC, briefed the Committee on the Corporation's involvement in several activities related to small-dollar loans and financial services for underserved populations: proposed guidelines for affordable small loans released in December 2006; the banking initiative for responsible loans to members of the military; regional alliances for economic inclusion; and financial education. With respect to the "Affordable Small-Dollar Loan Guidelines," he advised that the purpose of the guidelines, which were issued for comment, was to encourage financial institutions to offer small-dollar loan products that are affordable, yet safe, sound and profitable.

Mr. Mooney went into detail on the December 6, 2006 FDIC conference on military lending and follow-up activities. Mr. Mooney then discussed the Alliance for Economic Inclusion ("AEI"), a Corporation initiative to build broad-based coalitions of individuals, financial institutions, community organizations, and others to develop and market low-cost financial products and services to unbanked and underserved populations in nine geographic areas across the country, and to expand financial education in those areas. Mr. Mooney then provided brief status updates on alliance activities in each of the nine areas. He added that Chairman Bair had approved the Corporation's hosting of a national conference in 2008 to allow participants in the nine areas to share their experiences and the results of their various programs.

Briefly addressing the Corporation's work in the area of financial education, Mr. Mooney explained the successes of the FDIC's Money Smart program launched in 2001: as of December 31, 2006, the Corporation's *Money Smart* curriculum had reached over 685,000 consumers and resulted in over 128,000 documented new banking relationships; that the results of a Corporation-sponsored Gallup poll of Money Smart participants showed that they budgeted better, saved more, opened up more accounts; and had generally improved their financial well-being one-year after taking the course. He advised that the Corporation had also developed, in conjunction with NeighborWorks America, a homeownership counseling program for Gulf Coast recipients of federal funds to ensure effective use of the lump sum payments to reestablish their homes.

Committee Chairman Taylor then opened the floor to questions and comments. During the ensuing discussion, Mr. McDonald cautioned that under existing safety and soundness examination procedures, the proposal to give favorable CRA consideration for affordable small-dollar loan programs has the potential, when considered with other subprime lending data, to result in an exposure greater than 25 percent of Tier 1 capital, unfavorable peer comparisons, additional capital requirements, and therefore a disincentive to lend to the very populations the programs are intended to reach. He suggested that some consideration be given to identifying a way in which institutions can get CRA credit for the programs, while reducing their impact on aggregate subprime credit exposure.

Mr. Fish expressed his concern that a small-dollar loan program not be viewed as an additional CRA test, in response to which Chairman Bair assured him that the intent of the guidelines was not to add burden, but to provide a greater range of incentives. Ms. Warren suggested that it was important to track the experiences of consumers who utilize small-dollar loan programs 6 to 12 months out to ensure that they do not get on a treadmill of overdraft and bounced check fees and other wealth stripping practices, in response to which Mr. Mooney advised that tracking program results, including behavioral changes in the target population, was a priority.

Then Mr. Fish pointed out that, while there was no guarantee that the initiative would be successful, at least banks are regulated and transparent as opposed to check cashing operations and payday lenders, which are not; Ms. Wright and Mr. Eakes suggested that perhaps there should be some recognition that some customers may be better served by the right check cashers than a bank, particularly in instances where the cost of cashing a check is less expensive than a bounced check fee; Mr. Steel stated that Ms. Warren's comments raised the issue of whether the initiative would, by making credit more easily available, encourage debt in individuals who would not otherwise have incurred it; and Mr. Otero observed that if the initiatives included a focus on the development of banks' ability to measure a borrower's ability to repay a loan, in the absence of balance sheets and other written documentation as well as a focus on fostering financial literacy, wealth stripping should not be a concern.

Committee Chairman Taylor announced that the meeting would recess for lunch. Accordingly, at 12:24 p.m., the meeting stood in recess.

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The meeting was reconvened at 1:22 p.m. that same day at which time Committee Chairman Taylor introduced Norb Kaczmarek, Chairman, Pennsylvania Credit Union Association, and CEO, Erie Federal Credit Union, Michael Wishnow, Senior Vice President, Pennsylvania Credit Union Association, and Laurie Kennedy, Associate Counsel, Pennsylvania Credit Union Association, who briefed the Committee on the Pennsylvania Credit Union Association's Better Choice Program.

Mr. Kaczmarek began by providing a brief overview of credit unions. He then explained the factors which led to the development of the Better Choice Program, noting that attempts to address the payday lending problem in Pennsylvania had been legislative, regulatory, and litigation-based, but that efforts to legislate strong payday lending restrictions had been thwarted by the strong payday lending lobby, regulatory effects had proved ineffective, and litigation against each of the many payday lenders in Pennsylvania was not a viable approach. He then described the key features of loans available through the Better Choice Program.

Mr. Wishnow advised that the Pennsylvania Banking Department, the State Treasurer, and the Pennsylvania Credit Union Association ultimately joined forces to combat payday lending through development and marketing of a reasonable, lower-cost alternative that shared some of the attributes of payday loans, but that would attain the added goals of transitioning borrowers from wealth-stripping products to more mainstream wealth building products and breaking their cycle of debt.

Mr. Kaczmarek discussed how the program has benefited individuals who otherwise would go to payday lenders. He reported that the Better Choice Program, which launched in October 2006, currently had 48 participating credit unions with 149 branches across the state.

In the discussion that followed, various Committee members suggested that a key issue for the Better Choice Program was whether it would be profitable for the institutions and, therefore, have long-term viability, and underscored the criticality of follow-up data, especially data on how many of the program's customers were utilizing payday loans, whether the program loans are used as an alternative, or in addition, to payday loans, and why people use payday lenders.

Next, Steven O. App, Deputy to the Chairman and Chief Financial Officer, FDIC, and Michael Krimminger, Special Advisor to the Chairman for Policy, FDIC, presented a proposal for a pilot project to expand the availability of reasonably-priced small-dollar loans.

Mr. Krimminger began by providing background information on the characteristics of payday loans and the significant financial impact on those who utilize them. Regarding the demand for payday loans, Mr. Krimminger stated that approximately 39 states and the

District of Columbia allow payday lending; that 2004 data showed the dollar volume of payday loan originations had reached $40 billion; the increasing number of places that offer such loans (from 300 more than 10 years ago to more than 21,500 today); and that the industry has become increasingly dominated by large, mono-line companies and subsidiaries of broader financial services companies. He suggested that this huge demand for small-dollar loans represents a business opportunity for insured financial institutions and cited examples of institutions which had developed products to meet some of the demand.

Mr. Krimminger described the advantages that banks have over payday lenders in the small-dollar loan market. He advised that the proposed two-year pilot project would encourage participation through Corporation sponsorship and limited incentives and would be designed to demonstrate the value to banks of incorporating reasonably priced, small-dollar lending products as part of a business plan to reach out to underserved communities, to transition members of those communities into mainstream banking services, and to reduce their reliance on high cost, nonbank service providers.

Mr. Krimminger noted that participating institutions would receive incentives, such as favorable CRA consideration of small-dollar loan programs as an activity responsive to the credit needs of the community; participants would be required to meet threshold eligibility criteria and agree to adhere to specified guidelines.

Mr. App elaborated on possible incentives for banks to participate in the program.

A discussion ensued, during which a number of issues were raised, including the need, given the aggressive marketing tactics of payday lenders, check cashers, and mortgage lenders, to give as much consideration to promoting small-dollar loan products as to the design of the products; whether some type of joint marketing endeavor or national awareness campaign might provide an incentive for small community banks with limited budgets to market their programs; the importance of making any financial education component as convenient as possible and minimizing any paperwork burden; whether providing an incentive to save would produce better results than a requirement to save; whether Corporation funding could be a sufficient incentive for banks to participate; and the importance of identifying expected outcomes of the pilot project.

Governor Mishkin suggested a research approach to the pilot program and stated that rather than prescribing any particular type of program, the Corporation should encourage a number of different experiments in diverse locations and should ensure that participants have a rigorous evaluation component to look at some of the issues raised at the meeting.

Mr. Boston, agreeing with Ms. Fuchs' suggestion that the Committee immediately move forward with a proposal, also suggested that the proposal examine, at least in some of the test markets, the possibility of working with local legislators to exclude savings deposits in the participating loan programs from any limitations on assets for recipients of social services funds.

Mr. Orozco suggested that limiting the pilot project to 20 institutions would allow for a careful review of issues relating to credits and savings and stated that it was important for the Corporation to identify the level of each institution's commitment to partner with community outreach organizations.

Mr. Eakes suggested that the pilot project evaluate the ability of banks to use an overdraft line of credit to fund small-dollar loans. He also suggested that the most valuable outcome of the pilot project might be to convince policymakers that there is an alternative to payday loans, thereby making it more palatable to prohibit payday loans. He then questioned whether there was any prohibition in FDIC regulations that would prohibit banks from investing in loans generated through Prosper. Chairman Bair responded that the Corporation would have to research the issue. Mr. McDonald suggested that making loans through Prosper's platform would minimize the costs of offering a small-dollar loan program and noted that, perhaps, Prosper could create a separate platform for banks.

Then, on motion of Ms. Wright, seconded by Mr. McDonald, concurred in by Mr. Beck, Mr. Boston, Mr. Eakes, Mr. Fish, Rev. Dr. Flake, Ms. Fuchs, Mr. Grzywinski, Mr. Henderson, Governor Mishkin, Mr. Orozco, Ms. Otero, Mr. Ryan, Mr. Steel, and Ms. Warren, the Committee voted in favor of Corporation staff's proposal, taking into consideration the various comments and suggestions of Committee members, and continuing its work on the proposed pilot project on expanding the availability of reasonably priced small-dollar loans.

Committee Chairman Taylor then summarized the meeting, noting that the Committee had heard many innovative ideas from the private sector, a community-based organization, and the Corporation on increasing the availability of reasonably affordable small-dollar loans and that discussion of those issues ranged from how the regulatory environment can be altered to promote some of the ideas to what contributions financial services firms can make to possible incentives which could be offered by the bank regulatory agencies. She further noted that the Committee had touched upon some controversial issues, including who benefits from banks and in what way, who provides better financial services to underserved communities, and what services should be offered and by whom. With respect to the issue of savings, she indicated that more discussion was needed to resolve the questions of what incentives can be offered to encourage savings and what role the government could play in changing policies which provide a disincentive to save. She concluded the summary by noting the Committee's general consensus that financial education and the ability of insured financial institutions to profit from offering affordable small-dollar products are critical to the effort of bringing the unbanked and underserved into mainstream financial centers.

Committee Chairman Taylor suggested that possible topics for future meetings included the types of financial services provided by nontraditional providers, including whether some of the services should be offered by banks and what incentives, if any, should be provided to banks to offer such services; the pros and cons of bounce protection versus check cashers; and the types of financial services actually needed by poor and underserved populations.

There was some discussion by Committee members on possible topics, including the competitive impact of check cashing franchises on banks. It was noted that regulatory burden acts as a barrier for banks to provide such services in communities that have check cashers. Chairman Bair advised that the Corporation was currently leading an initiative with FinCen and the other federal banking regulators to determine whether, in states with a robust supervisory system, they could rely more on state regulation of money service banks. She also noted that there are some banks providing remittance services as a niche business, which could be evidence of the market correcting itself, and that, from a supervisory perspective, it may be easier to examine those relationships in an institution that specializes in the services and has established a sophisticated monitoring system.

Other suggested topics included sub-prime mortgage lending and the issue of providing financial services for the immigrant community. Chairman Bair suggested that the financial needs of immigrants could be combined with the Committee's discussion of money service banks because of the relationship with remittances and money transmissions.

Chairman Bair advised that staff would suggest dates for the next meeting.

There being no further business, the meeting was adjourned.

Executive Secretary
Federal Deposit Insurance Corporation
And Committee Management Officer
FDIC Advisory Committee on Economic Inclusion

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

Diana L. Taylor

Diana L. Taylor
Chairman
FDIC Advisory Committee on Economic Inclusion

Dated: May 28 '07