FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON ECONOMIC INCLUSION
(ComE-IN)

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MEETING

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THURSDAY
FEBRUARY 5, 2009

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The Advisory Committee convened at 8:30 a.m. in the Board Room at the FDIC Headquarters, 550 17th Street, N.W., Washington, D.C., Diana L. Taylor, Committee Chairman, presiding.

PRESENT

DIANA L. TAYLOR, Committee Chairman

SHEILA C. BAIR, FDIC Chairman

MARTIN GRUENBERG, FDIC Vice Chairman

KELVIN BOSTON, PBS's Moneywise with Kelvin Boston

MARTIN EAKES, Self-Help/Center for Responsible Lending

LAWRENCE K. FISH, RBS America and Citizens Financial Group

REV. DR. FLOYD H. FLAKE, The Greater Allen A.M.E. Cathedral of New York

PRESENT: (CONT.)

ESTER R. FUCHS, Columbia University School of International and Public Affairs

RONALD GRZYWINSKI, ShoreBank Corporation of Chicago

WADE HENDERSON, Leadership Conference on Civil Rights

ALDEN J. McDONALD, JR., Liberty Bank and Trust Company

JOHN W. RYAN, Conference of State Bank Supervisors

PETER TUFANO, Harvard Business School

ELIZABETH WARREN, Harvard Law School

DEBORAH C. WRIGHT, Carver Bancorp, Inc.

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

8:48 a.m.

MS. TAYLOR: Good morning everybody and thank you all for coming. Our topic for today's session is strategies to increase access to the financial mainstream. Anyway, today people might wonder if that is actually a good thing.

(Laughter.)

MS. TAYLOR: Anyway, that is basically what we are here trying to do, getting people into the financial mainstream. And as you all know, have heard, or read, the underserved population is huge as far as the banking sector is concerned. There are estimates all over the place, but they basically say that at least ten million households throughout the country, which is ten percent of the U.S. population, don't have a bank account.

And in New York City that's about the same thing, too. The estimate is that there are about 800,000 people in the city of New York that are underserved by the banking sector out of a population of eight million. So I've never really discovered where those numbers came from, but everybody seems to sort of say the same estimates. And many of these households that are underbanked continue to rely on alternative financial service providers for their financial needs and as we all know that is often at a very high cost. It costs a lot more to use that sort of service in regard to those banks.

And the sheer size of the alternative financial services industry with more than 300 billion dollars in revenue transacted annually, this should be a tremendous incentive for banks to pursue underserved consumers. It is a great untapped revenue source, one would think. In addition to prospects of extending their customer base and doing good in their communities, that would be a great incentive for banks to try to lure some of these people, this underserved population into their system. Banks are driven by a profit and you think there was a lot of profit there, so one of the things I'm going to be interested in hearing today is what are the barriers to banks actually going after this population and are there things that we can do to try and break some of those down?

So anyway our first panel today is going to explore exactly how banks are reaching out to underserved populations. The panel will feature a preliminary overview of the FDIC survey of banks efforts to serve the underbanked and unbanked population that intended to identify the challenges that banks face in serving the customers and highlights on the general strategies banks can use.

The second panel features several banks that have participated in the survey and they will discuss specific products they have used.

The third panel represents a group of bankers and not-for-profit organizations most of whom are active in the FDIC's Alliance for Economic Inclusion or AEI effort. The AEI is a grass roots initiative of banks, not-for-profits, government agencies, public companies, philanthropic and faith-based groups, and others in eleven markets across the country that is intended to improve access to the financial mainstream. The AEI effort has been tremendously successful so far with nearly 1,000 members and more than 85,000 new bank accounts opened to date. This panel is a great opportunity for this committee to link up with the AEI members on the ground so we can hear firsthand of the kinds of products and strategies that have been proven successful for banks, bank partners and underserved consumers.

The afternoon session, after lunch we will build on the outcomes from the morning session and we will draw on the experience of this committee to help the FDIC staff identify and amplify the most effective strategies for reaching underserved consumers.

As usual, a few housekeeping items: please remember that only committee members and the panelists themselves are permitted to speak during the presentations and that this meeting is being webcast, everybody remember that, live, and being recorded for anybody who wants to listen to the words of wisdom that we talked about today.

So now I am going to turn the presentation over to Chairman Bair who will take a few moments to update us on items or things that have transpired since our last meeting.

CHAIRMAN BAIR: Right. I just want to say thank you all and thank you Diana for your tremendous leadership for this committee. I have a very good statement here that would probably take me about 20 minutes to go through, so I'm going to just provide some highlights but perhaps we could hand it out for the public record because it really is a good summary of what this advisory committee has accomplished so far. But just to give you an update.

Our first initiative, our first meeting was the Small Dollar Loan pilot recommending that the FDIC launch a Small Dollar pilot program and that I think has been going on very well. We have 31 banks in the pilot. About 12,000 Small Dollar Loans have been made since the pilot began and most are profitable or at least breaking even. I think most of the banks participating feel that even if it is not turning a profit, it is good for relationship-building and so hopefully the experiences that they have gained there will help us convince more banks to offer this very important product, especially as the economy becomes more challenging. There will be an increasing need for responsibly-priced Small Dollar Loans.

Money service businesses and some of the issues associated with banks doing business with money service businesses and what an MSB is and what the regulatory requirements are. There has been a lot of confusion there. And that has, I think, impaired the ability of banks in the low- and moderate-income communities to fully serve those who need financial services. I think we have made some progress with FinCEN in getting more clarity on what an MSB is and that work continues but I am optimistic that is going to resolve itself fairly soon.

We also had a forum on low- and moderate-income mortgage lending as you recall. It was a tremendously successful forum. A lot of very prestigious speakers who shared a lot of good ideas about what responsible, sound, sustainable mortgages designed for the LMI community look like or should look like going forward. We had some tremendous ideas. We put that together in a financial institution letter that we sent out to all of our institutions and a number of the ideas are being implemented and the banks are participating in our Alliance For Economic Inclusion.

Finally on loan modifications, this committee also was an early advocate for wide scale restructuring of troubled mortgages. We were able to pioneer a systematic loan modification protocol at IndyMac bank which so far we have completed 10,000 loan mods and several more in the pipeline. We are taking them down to a 31 percent debt-to-income ratio through a combination of interest rate reductions, extended amortization, and principal forbearance. We have also put a Mod in a Box on our website so that other servicers can use this. It is a very simplified protocol, how to do it at the NPV test. The investors obviously require that you do a net present value test of the loan modification over closure value, so we have a simplified process for doing that as well and I think it has been helpful.

Since then Fannie and Freddie have announced somewhat similar protocols. Bank of America, J.P. Morgan Chase, I think, and I hope we are migrating towards a national standard with at least a 31 percent debt income ratio. I think the affordability, the meaningful payment reduction, is really key to making sure that those and making it a life-long. No more payment shocks are really key to making sure that the folks can continue to pay on their restructured mortgage. So I am very optimistic about the future of loan mods and certainly the new administration has indicated a very strong commitment to getting these loans restructured and preventing foreclosures and spending real money to do that. So I have high hopes that we will be gaining real momentum on this.

Finally on asset building, I think we had again some wonderful ideas on how to facilitate savings, more savings among the LMI community and truly in a category of taking a lemon and making lemonade. We've been working with Peter and others on perhaps mirroring savings with lotteries. So I think there's a lot of good progress there and thank you, Peter, for all of your work and those of your students in trying to get something going there through FDIC partnerships and certainly to the extent banks can play a responsible role in facilitating those savings accounts linked to lottery participations. I think that would be a very helpful thing.

So finally, we have this wonderful unbanked survey that was spearheaded by Vice Chairman Gruenberg and Barbara Ryan which we are going to be hearing about now and I read it but I'm looking forward to the presentation as well. And before I think the panel starts, Marty, would you like to say anything? Barbara why don't you go ahead and take it away.

MS. RYAN: Thank you Chairman Bair. Good morning everyone. I am Barbara Ryan, Deputy to Vice Chairman Gruenberg. I'll be moderating this panel discussion on the FDIC survey of bank's efforts to serve the unbanked and underbanked and, as Chairman Bair mentioned, I've also been managing this project for the FDIC.

I'd like to begin by introducing my fellow panelists. Ed Bachelder, to my immediate right is director of research at BlueFlame Consulting and until recently was director of research at Dove Consulting which the FDIC retained in 2007 to help us design an administrative survey effort. Ed oversaw Dove's work on this project and has also contributed to over 230 research studies while at Dove Consulting including many involving banking and payments topics.

To Ed's right is Michael Barr, professor of law at the University of Michigan Law School. And Michael is a well known expert, as many of you know, on financial matters, author of many notable publications concerning financial services and low- to moderate-income households, and Professor Barr serves as an advisor to the FDIC and Dove Consulting on this survey effort. Both of their bios are in your materials.

I'm looking for my slides now. I'm sorry. So over the next few minutes I am going to quickly review some background on the survey. Ed is going to share with us some of the results from the survey and then Professor Bar will share some of his thoughts on the implications and the recommendations related to the findings of the survey. And we will also have time for some Q and A.

So by way of background, the FDIC conducted this survey in response to a mandate under the Federal Deposit Insurance Reform Act of 2005 which requires the FDIC to conduct bi-annual surveys on the efforts of secured institutions to serve the unbanked. The statute asks the Chairman of the FDIC to report to Congress on the results and findings of the survey including recommendations for legislative or administrative action as the Chairman deems to be appropriate.

Okay, so the Reform Acts lists a number of factors and questions for the FDIC to consider in conducting the survey. But it actually left pretty wide latitude in terms of the design of the survey. So to take a step back, while we don't have concise estimates of the numbers of the unbanked, which is defined as those who rarely if ever have held an account at an insured institution, we do know that it is substantial and that there are millions of Americans without bank accounts. We also know that an even larger number of Americans are underbanked. They have a bank account but they also rely on non-bank financial service providers such as check cashers and early on, the decision was made to focus the FDIC survey efforts not only on the unbanked as the statute requires, but the underbanked and -- because many of the issues confronted by the unbanked also are faced by the underbanked.

So the FDIC conducted the first bank study during 2008. This survey was designed to address factors and questions that were raised in the statute. Broadly speaking the goals of the survey were to identify the extent to which banks are serving the banking needs of the unbanked and the underbanked, to identify challenges affecting the ability of banks to serve them, and identify innovative efforts that banks use to serve the unbanked and the underbanked.

The Reform Act also asked the FDIC to provide a fair estimate of the size and worth of the unbanked market. This isn't really a question that can be easily asked of banks. Many do not know the answer to that question. So the FDIC is addressing this issue with a separate survey effort, a household survey, being conducted jointly with the Bureau of the Census. After a lengthy planning process, just three weeks ago the Census actually conducted a supplemental survey to its monthly current population survey on behalf of the FDIC. That survey was designed to identify the number of unbanked and underbanked households in the U.S., their demographic characteristics and the factors hindering their use of banks. The survey was administered to about 50,000 households. It will provide the first reliable national and regional estimates of the number of U.S. households that are unbanked and underbanked and the related information that we are seeking. And we expect to release the results of that survey later this year.

Now back to the bank survey. It was composed of a mail-in survey questionnaire sent to about 1,300 banks in three different size classes. The surveys were mailed out in the Spring of 2008 by Ed and his team at Dove

Consulting. Participation was voluntary and 685 completed questionnaires were returned, resulting in a 54 percent response rate. The survey also involved 16 case studies on banks in order to highlight innovative efforts to serve the unbanked and the underbanked. And these banks were chosen based on a variety of criteria, including demonstrated evidence of their efforts and their successes. The survey instrument asked a lot of questions regarding the bank's education and outreach obstacles, access account opening issues, products and services offered by banks that might appeal to the unbanked and underbanked.

It is going to review some key survey findings in detail at a very, very high level. To set the stage, this is what the survey revealed. Again, I want to emphasize that the survey, this tremendous amount of data that we received and we still need to analyze a lot of this data, but at just a very high level what we found is that most banks, the results revealed that most banks are aware that there are opportunities to serve underbanked and unbanked individuals in their areas. Yet relatively few have made it a priority and there is a tremendous untapped opportunity out there. While many banks do provide basic financial education materials -- certain types of efforts of outreach were identified as most effective by the industry and these such as educational sessions, outreach partnerships -- fewer banks participate in those types of efforts. We are going to hear more about some banks that have been very highly successful in those efforts in the next session when we get into the case studies.

We also found that most banks offer basic accounts, checking accounts, savings accounts to all customers. These are basic accounts, but fewer offered the sorts of products that are specifically tailored to the unbanked and the underbanked.

And finally, in terms of the challenges, many banks are concerned about the profitability of serving unbanked and underbanked individuals. And they are also concerned about perceived regulatory issues and impediments including anti-money laundering regulations. So there's a lot more in the survey results. The report is over 300 pages long. But before I turn to Ed I do want to recognize the 16 case study banks that were profiled in the study for their innovative efforts to serve this segment. I don't have time to go over the details of each of these case studies but they are grouped here under the category most closely matching their efforts.

Not exclusively, but 16 are listed on the slide. Descriptions of each bank's efforts are in the FDIC executive summary that will be released very shortly as well as complete written case studies are in the detailed report prepared by Dove Consulting, those of which will be available on the FDIC website. And you'll hear from the four banks identified in red on the slide since they are here with us today and they are going to share their experiences in the next panel discussion.

And now I am going to turn this over to Ed and he'll provide a more detailed review of the survey results.

MR. BACHELDER: Thank you Barbara. I'm Ed Bachelder. I appreciate the opportunity to address this committee and all the good work that it does and I'm delighted and honored to work on this national survey of bank's efforts to serve the unbanked and underbanked.

Before I get started, I just want to give a little bit of background in terms of methodology. The survey went out, as Barbara mentioned, to around 1,300 banks. For those who speak statistics, the sample frame had about 1,287 FIs that we ended up surveying out of the 7,487 banks that had retail offered that would have branch operations for people, who might come in off the street. We broke them out in terms of three tiers. Tier one were the top 25 banks. Tier two were banks that were over a billion but not a top 25. And tier three were banks with assets of less than one billion.

In terms of the results we had 685 participants but because of the stratified sample design, even though we have a smaller sample, we had a very high participation rate, 96 percent of the top 25 banks. That gave us a much better representation of the industry than if it was a random sample. And our response rates, and Professor Barr encouraged me to mention this, is -- our response rate of 54 percent overall is about double what you would typically find in a commercial survey. And if you just want to think very loosely about it, approximately 70 percent of insured bank assets were covered by the banks who participated and responded to this study. But the percentages and numbers you will see in the report are weighted percentages that would reflect banks across the industry. So think about it as banks. But in terms of the coverage, be aware of that.

I don't know if people can see but if we go to slide ten and there should be a handout with color so people can see it. As Barbara mentioned, one of the first things that jumps out of the survey is that the majority of banks are aware that there are unbanked and underbanked individuals in their market areas. Specifically the tier one banks they all said we don't. The tier two, 90 percent, the tier two banks have 71 percent. There are some who don't know but in general the larger banks seem to be very aware of the unbanked existing. Yet despite that, if you go across the industry study, you'll see that only 18 percent of banks have identified expanding services to these groups as a priority of their business strategy.

We had a number of questions in this very long survey and we asked, we developed certain themes in different ways. But one of the areas that we explored is what was effective. What methods were working? And we had a very simple question that you can probably read faster than I can say, but essentially we were asking banks to rank or sort different types of programs as what was the most effective to less effective. And the number one ranking was providing financial education sessions as having - providing a benefit that leads to account relationships. The second one was participation with other organizations outside of the bank. Outreach going out to employers and community centers. And then financial education materials were the fourth and targeted marketing. Targeted marketing is a challenge because you don't necessarily know where they live or who the customers are. A lot of challenging demographics, so that could be understood, and then "other". So if you think about it, those are the top methods.

If you turn to the next slide. The banks have indicated what they thought was effective but if you look at what banks are actually able to do and do commonly is most provide financial education materials. But they tend to do, tier 1 banks tend to provide the types or forms of education outreach viewed as most effective. So, for example, the left pie, does your bank provide financial education materials aimed at the unbanked or underbanked, 63 percent do. That could be a passive method, some literature or brochure. On the right hand side: do you teach literacy or education sessions, the more active method. You can see that 47 percent of banks don't. And in terms of where it does occur, 35 percent are off-premise and many banks have described the challenges of getting sessions in their own facilities so typically they have to go out somewhere or a combination. So it is kind of, I think it is a challenge that banks face at that level. But, in any event, tier 1 banks are using that more effective method by their own results.

The next slide. Looking at some of the challenges for banks that serve the unbanked and underbanked, we asked them to rank what they were. On the top of list profitability, followed by regulatory, fraud concerns, high cost of customer acquisition and down at number five was competition from other service providers, which is kind of interesting when you think about the unbanked and underbanked, especially the underbanked, where somebody might have an account at a bank but chooses to cash a paycheck at a check cashing or facility is a very interesting thought. So the banks aren't reading that as a top barrier. And 40 percent of banks perceive regulatory issues as impeding their ability to serve this market.

When asked, we had a question that asked about what are banks doing, what have they done to try and become more accommodating and modify their operations, retail operations, branches to serve the unbanked and underbanked. 64 percent of banks reported that they have modified their retail branches to make them more welcoming or convenient to the unbanked or underbanked, but the method that was used as I think with branches were including operations is the top thing that was mentioned was internet and mobile banking and that's a timely topic in financial services world. Mobile banking, we have to realize this, for some banks includes a van or going out to a facility. So it is not necessarily the cell phone that you might think about it. It isn’t the cutting edge, it is the going out to the retirement area or the factory or location like that to provide services at specific times.

Adding ATMs, extending branch hours

is very common. Many banks have extended their hours and there are many that use supermarkets and other facilities that are open longer. But when you go down toward the bottom, you'll see new branches in LMI areas. Actually really changing the branches or looking at non-traditional locations. That is used much less. Fewer banks have made efforts that way.

Next slide. So if we sort of think about what banks services are, then the first challenge for a bank is when you walk in the door, I don't know whether you are banked or unbanked. I don't know. All I know is you are not a customer. So for many banks it is either customer or non-customer. If you are a customer I know something about you and I have a lot less worry. If you are a non-customer, I have a lot of concerns that I need to take care of. Therefore, typically the services to non-customers, the top of the list is I'll cash a check that is drawn on my bank. So banks will do that whether you are a customer or not. However, if you come to that bank with a local payroll check, for example, this will be mentioned later but 32 percent of banks won't cash a local payroll check unless it is drawn on their bank. So you have to think about not competing with an alternative financial services provider. I think that is an important issue to think about. And then in terms of making payments, 37 percent of banks won't do bank checks or money orders for people who don't have a relationship with that bank. They are concerned at that level and only six percent offer international remittances for non-customers. So I think that follow up or continuation in services makes sense when you think about the regulatory issues and the Patriot Act.

So then the other big challenges for banks serving the non-customers, identification. Typically it is going to depend upon some sort of government issued photo ID. So 92 percent take their driver's license. And then as you drop down to other types of licenses, and this is spelled out in a lot more detail in the report, but you get down to 20 percent will take the matricula and 38 percent will accept ITINs to cash a check. And I mentioned the regulatory issues.

Next slide. So, say you are unbanked or underbanked. Now you have to look at I want to become a customer. There are policies and procedures I have to go through in order to become a customer. And some of these policies and procedures are well-founded, good management but they present obstacles for somebody opening an account. So, for example, if you have a blemished credit history, you are going to end up probably going through a third party credit check or debit risk management program like the check systems. It is going to look and see do you have any derogatory information about your background. And if so, banks will tend to, at that point, choose not to open an account or will go through a process. So there's a lot of hurdles if you have had trouble in the past getting back in. And then the other one is identification because the bank wants to make sure they know who you are, you know, so they can track you down. So it goes back to government issued IDs as the key item. So if you don't have that you will have a harder time using the bank.

One of the key areas of the study was what kind of products and services do banks offer for unbanked and underbanked individuals? And it really comes down to essentially most banks are going to offer a basic deposit account that doesn't require a minimum balance. Sixty-two percent offer a no minimum balance account and that will include free check writing in their most basic account. So if you see the pie chart, you'll see there is 62 percent that have no minimum balance required. Eight percent will take no minimum if you have direct deposit and then another 30 percent will require a minimum balance. But 30, I guess the key point is 99 percent of these accounts have overdraft charges that will go with it. So somebody who has minimal funds and isn't up on their account statements has a good chance of encountering overdraft charges which can be an obstacle to maintaining a bank account.

Next slide please. In terms of products, this is probably a very sleepy chart. But as you start going through the different types of products that banks offer, when you start getting down to those tailored that might be very unique to the unbanked and underbanked, the IDAs, eight percent of banks offer those and typically when a bank offers those, you don't count those and really don't count those in thousands. You may count them in dozens or hundreds.

Workplace based programs, going out and working at an employer site. We are working at the volunteer tax assistance. They are trying to help people sign up for accounts. I think Professor Barr will probably want to comment about that. But I think the issue you want to really think about is for somebody who’s not doing well in their check system screen, what does the bank do? And only 25 percent of the banks in the study reported having an option – an account that they could then queue up for somebody to do. Today one of the panelists for one of the case study banks, their bank actually has something that's not called a second chance but an opportunity checking account where they minimize the amount of ATM withdrawals and deposits, no overdrafts allowed, to really constrain the account to get people on track before they let them graduate or move up to a more traditional account.

Next please. And then in terms of the services provided when we were asking what banks efforts are in terms of branch strategies to serve unbanked and underbanked in the market areas, and the most popular item was check cashing. That was 49 percent of banks who use that as a strategy and money orders. Both of those are pretty big cards. So this is really trying to look at what financial service providers offer and what do the banks offer. And you can see that your numbers would be very different in terms of who the competition is for banks within this market segment.

There we go. So, one of the key challenges as we talked about, whether you are able to cash a check or not is whether you get cash when you come in with a check. If you look at the survey responses, you'll see that the funds availability for checks is in compliance with federal regulations but is pretty slow for many people relative to non-bank check cashing services. So, for example, 36 percent of -- if you can follow the segment you see the green and the yellow, so 64 percent. So the majority of banks will give a personal check or business check drawn at that bank immediate funds availability and still cash that check. Other ones are going to wait a day. So you may not get your money. Now what is interesting is these are for people who have an account at that bank. So these aren't just walking in off the streets. So these are for their customers, established customers. And I believe an “established customer”, it meant they had an account for more than 30 days. So they have already had a cycle. Government checks, 48 percent. When you start going to payroll checks, you can see that for many banks they don't give immediate availability to their own customers. And then you can work your way through different types of checks that would have more and more risk potentially. These are for checks under $2,500 and are local.

So I think that's probably one of the key things to consider. That is, what is the availability and the reason I bring that up is these are rules that were established many years ago before Check 21 and the check clearing and forwarding. So the technology has moved ahead in banking and the rules are the same. So I just suggest this might be an area for exploration.

And then the next slide. In terms of credit products, we found that banks offer few advanced products. So for example, if I want to get an advance on my paycheck or an advance on a scheduled direct deposit or credit card – it is targeted on individuals – so there aren't that many banks that offer products like that. Fewer than six percent will give an advance on funds or against an anticipated direct deposit and that would include things like government and payroll. And I guess the final point here is that two-thirds of banks, 69 percent, offer closed and unsecured loans for up to $5,000 but the requirements make it harder for an individual to, an unbanked or underbanked customer, to access these to avoid more costly payday loans.

So I moved right through these and there are some recommendations, but would you like to --

MR. BARR: Do you want to talk about the FDIC recommendation first or do you want me to comment first?

MS. RYAN: I'll mention that.

MR. BARR: Great.

MS. RYAN: And then you can take it away. As I mentioned a few minutes ago, the statute requires that a report be transmitted to Congress and it also suggests that the Chairman of the FDIC make recommendations for legislative or administrative action as she deems appropriate. And there is one recommendation that the FDIC is suggesting, that you just put out there, which is to consider defining a shared national goal, government industry goal, to lower the number of unbanked and underbanked households in the United States. This is not a problem that is uniquely the industry's or the government's. It is a shared problem and so that's an idea to put out there. It could involve, for example, creating a national task force to provide oversight and guidance, suggestion for doing such a thing. And of course any such goal would need to be based on reliable statistics which, as many of us know, don't currently exist, but hopefully we will have some better statistics soon on this to provide a tracking measurement. So that's one suggestion. I know that Professor Barr has thought about this a great deal and maybe has some more. So let's move into this session.

MR. BARR: Thank you very much, Barbara, and I just wanted to say thank you to Chairman Bair and to Vice Chairman Gruenberg and to the chair of the committee, Diana Taylor, for inviting me to participate in this project overall and also for inviting me this morning. The FDIC's leadership on this issue, I think, is really extraordinary. I don't have to tell any of you that, but you take a step back and look at the range of issues facing the FDIC over the last few years. The fact that Chairman Bair has decided to make this a central part of her leadership I think is quite extraordinary so I'm thankful for that on behalf of everybody. I also want to thank Barbara. It has been just a real pleasure to work with the FDIC and with Barbara and her team on this project. It is just an extraordinary group of people and working with Ed Bachelder again has just been a delightful experience too. Ed and I first worked together more than a decade ago when the federal government was tasked with the idea of making benefit payments electronically under the electronic funds transfer program, the EFT 99. Ed was instrumental in deepening our understanding at the Treasury at the range of issues facing unbanked federal benefit recipients, very much shaped the nature of the program that was instituted as a result of that. So it is a delight to be working with him again.

I want to make a couple of comments about highlighting a few things that both Ed and Barbara said, and then suggest for conversation a handful policy ideas building on the FDIC's recommendation.

I think there are, the central level of finding that I want to really focus on with respect to this study, which I should say also is, both this study and the CPS study that has just been done a real, scientific improvement. I think that one of the key findings from this report is that while many banks are engaged in lots of activity there is not a real focus on the kind of activity that is tailored particularly to the needs of low- and moderate-income households. So I think, in thinking about the next kinds of steps that we would hope that the banking sector comes to, there would be a set of steps that are based on a deeper understanding of what works and what doesn't in financial education, for example. And what works and what doesn't in the development and offering of products that are specifically tailored to the needs of low-income households. So these would be, for example, a safe and affordable bank account. So the basic bank account product that most institutions offer is a checking account with high risk of overdraft and high fees. And that kind of product doesn't work well for low- and moderate-income households. So I think we need to channel more of our energy away from the idea of any basic account and any financial education is an improvement and toward what is it particularly that financial institutions can do to offer low-income households a safe and affordable bank account. An account without checking perhaps. An account without overdraft in it. An account that lets them receive their income from a variety of sources, electronically and easily from federal benefits to state benefits to income from work. So having an efficient mechanism for low-income people to receive their income means it is less likely they are going to have to pay a lot of money to go to a check casher. We need a system that makes it easy for low-income people to save. I'm not talking about for long term purposes or retirement. I mean to build a cushion for in the case of emergencies. Too much of our conversation about savings is focused on long term goals and not enough on the need for short term emergency cushions. We need to build into our financial products automatic savings plans that help people build a cushion in their bank accounts.

And the third issue, which Chairman Bair already highlighted, is the need for a safer, lower cost credit product that can be built into these kinds of accounts. Financial institutions are able to do that at lower costs than the non-banking industry, but have not really pursued this as a strategy in meeting the needs of low-income households in this way.

So I think there's enormous potential that is embedded in these survey findings to redirect some of the energy in the financial sector.

Let me suggest, that in addition to what the private sector can do, a number of government focused ideas for discussion. One of them, Ed has already highlighted. That is with respect to funds availability policy. Our funds availability policies for banks are a real impediment to getting more people, the low-income people in the financial system. And with the advances in technology we've seen in the last several years and with check truncation authority we should really seriously reevaluate, at least for the largest institutions that are able now technologically to do better, requirements for greater speed and funds availability.

The second initiative that I think that we can take is with respect to encouraging a direct deposit. Direct deposit has become relatively commonplace for large institutions in their interactions with large banks for their employers. It is much less common for smaller banks to offer as an easy service for firms they do business with and for smaller firms to offer to their employees. And a real focus on direct deposit, I think would bring more low-income people into the banking system and reduce their costs of using non-banks for check cashing services.

A third idea is to expand on the work that the states have already done with respect to electronic benefits transfers. There's been enormous progress in reducing the cost for states of getting state benefits onto a debit card. There has not been very much energy put into the incredible functionality that card could have for low- and moderate-income people. If we view it not as just a means of transferring income payment but also as a means of getting other income from non-state sources, developing automatic savings plan, providing other kinds of products and services that low-income people need. So there's a lot of action that could happen at the state level.

An idea also with respect to really moving to the level of the federal government there are I think three initiatives might be useful or in order for discussion. One of them is with respect to greater attention under the Community Reinvestment Act to positive innovation and services. There's not been very much attention paid in the services test at all under CRA. And in general when that attention is paid, it is the question, was there a bank branch opened or closed? Which is really not that relevant to is a low-income person getting access to a financial product that works for them? So I think a greater focus on that would help.

And two ideas in the tax area. One is that the IRS right now if I'm a low-income person receiving the earned income tax credit and I don't have a bank account, I have to wait six to eight weeks longer than a banked person to get my refund check. It puts enormous pressure on low-income people to take out expensive refund anticipation loans, which they do. If the IRS were to direct deposit their tax refund into an account that the IRS itself made available to a low-income person through the private banking industry, that is under a roster of banks that agree to participate, banks get more customers, low-income people get into the banking system, we reduce the incidents of refund anticipation lending, and people get their money faster. So it is a way right now to get through the IRS much greater entrance into the banking system. And the last idea may not be especially politically popular in the current environment, but it is to provide financial institutions with a tax credit for offering low cost, safe and affordable accounts to low- and moderate-income consumers. Our studies suggest that profitability is one of the key barriers to serving low- and moderate-income people. If we were to offset the affixed amount of the cost of opening an account for low-income households, we might be able to rather efficiently make a big difference to the provision of those accounts. And I think the dollars involved do not need to be too high.

So that's quite a long list of ideas. It is really designed to start a conversation and I again want to thank Barbara and Ed for their partnership on this and Chairman Bair for her leadership on this issue.

MS. RYAN: Thanks Michael. I would like to open this up for discussion and before I do that I just have one thing I would like to mention that, in addition to it being a tremendous pleasure to work with Ed at Dove Consulting and Professor Barr, we've had a team here at the FDIC that's put a lot of work into this over the past two years. Yasmine Osaki, Susan Burhouse, Katherine Samolyk, Luke Reynolds, Angelisa Harris, Leneta Gregorie and David Chapman have all been working here with me and very involved in this issue which we are all quite passionate about. So with that, I would like to open it up for any questions or comments.

VICE CHAIRMAN GRUENBERG: I have.

CHAIRMAN BAIR: Vice Chairman Gruenberg would like to make a few comments then.

VICE CHAIRMAN GRUENBERG: I didn't want to preempt these guys at the offset because they have really done the work and I really think they have done, provided us with an outstanding piece of work here does break new ground in this area. I think this is a big issue that to a certain extent has received less attention than it should have. Access to financial services for low- and moderate-income people is a huge economic issue both in terms of the cost of those services and the quality or reliability. And the way in which those services are provided have a real economic opportunity and income consequences for low- and moderate-income people. And there has been a lack of careful, reliable information in simply understanding how those services are being provided and the obstacles that are presented to people in getting access to services on a responsible basis. I think the real purpose here, and in part it was the opportunity that was created by this statutory requirement and the deposit insurance reform law was really to build a base of reliable information to try to develop what we hope will be more effective strategies in this area. I think this survey in a sense is the first step in trying to get a handle on what banks are actually doing and in particular the case studies we are going to hear about in terms of innovative programs the financial institutions have implemented. I think quite importantly is this survey that the Census is conducting in collaboration with the FDIC which will be really the first reliable national survey of who’s unbanked and underbanked in the United States. Diana referred to it in her opening remarks. We have general numbers that are thrown around based on a variety of studies that have been done, none of which are really as reliable or far-reaching as we would like. I think with this survey which will be on a very large national sample and we'll get into some depth in terms of the services people used and the obstacles that they confront. We will really be able to get on a national regional even state-by-state and perhaps a metropolitan area basis who’s unbanked and the issues that they confront in terms of getting access to services. So I think we really have an opportunity here both to develop the information and come up with some responses that will have an impact and I just wanted to make that comment and again thank the people here at the table and the outstanding team at the FDIC that's really helped put this together.

MR. McDONALD: Thank you. I would like to first of all congratulate you on the information you have provided us today from your survey. And in listening to your presentation and listening to how you went about the survey, one piece dawned on me that I'd like to ask whether or not you took into consideration some effort toward looking at the preventive side? In other words, we have a number of people coming into the system of unbanked and underbanked and those individuals are coming in because of some factors. And when I was listening to the presentation from a preventive side, if we can at all possible look at how we could implement some type of educational piece into our education system, a lot of banks, a lot of agencies are doing financial education after the fact. So I was wondering whether or not during your survey or looking at alternatives whether or not some type of preventive piece was thought about and how we should go about it? That is question one.

MR. BACHELDER: Would you like a quick answer?

MR. McDONALD: Yes.

MR. BACHELDER: We did ask questions around the educational outreach how to do it, what types of approaches to do to educate people, on what levels and approaches. We had questions. We also had on the analysis side, we did a lot of qualitative open-ended questions where banks would comment both about what they have to do to bring people into the bank as well as what they might do to retain people who are having, who might have their account closed for costs because of having bounced too many checks. So programs that some banks have to try and help bring people back to an account where they can manage and stay in the system. So there is some comment information. So both the education part and some of the retention.

MR. McDONALD: I think where I was going with this was whether or not we could look at the educational system, whether it is in high school, whether it is in junior high school because what we need to do is get to the individuals before they develop these habits. In the banking business we are beginning to see a lot of problems beginning to come about with college students. They are getting into a financial problem early on with credit cards, which is affecting their FICO score, which is affecting what type of credit they can get, whether or not they can open an account. So, if we had that early education and I know the banks have been doing their part and the agencies, such as the FDIC, and the whole educational component. But maybe if we could look at an overall universal effort to begin having the education system to incorporate something into its curriculum early on to begin getting these individuals to understand the pitfalls. That would at least begin to slow down the number of individuals going to the unbanked and underbanked category.

MR. BARR: Let me just add two quick things to what I had already said. I think you are right. We need to do better at financial education earlier. I think one significant barrier to that is the lack of science around what actually works in financial education. We spend a lot of money. We all put out tons of brochures. We teach it in the schools and I don't think we have very good studies about the science and an effective education and finance.

And the second point -- acceptance in particular areas. The second thing I would say is I also think we don't want to put all of our weight on financial education as opposed to looking at the way in which we construct financial choices for our consumers to make. If we construct choices in such a way that it is really easy to make a bad choice and really hard to make a good one, all the financial education in the world is not going to be enough.

MS. RYAN: I would like to just add another point which is that the survey results revealed that a lot of banks are doing financial -- providing financial materials and this survey revealed that pretty clearly that we still have this problem. So I think that speaks to a certain extent by itself. It is also very difficult to evaluate the effectiveness of financial education. We did ask the question about effecting -- whether banks are attempting to evaluate what they are doing. We found I believe that most banks are not measuring the effectiveness of it. Now to give credit, those that answered affirmatively that they are, most of them felt like it was effective. But that was a minority. By and large, most banks are doing this and we don't know. They are not measuring whether it is working or not and like I say, the starting point is the problem still exists. So it speaks to a need for something.

MR. McDONALD: My second point and observation, because I had two. On the tax incentive, I think that's a very good incentive that if you can pull something together, even if you had a credit against your FDIC fees. It is something I believe that would begin motivating the financial institutions. It would at least get rid of the thought of them having it as a cost factor and perhaps they could look at it as an income factor. So it might be something that you might want to give some serious consideration to -- some type of tax incentive. I know you tacked it on in the end and said maybe this is far-fetched, but I think if we are going to change behavior on a large scale, I think the tax incentive route or some type of incentive route would be the most effective way to change the behavior of financial institutions.

REV. FLAKE: Thank you. First of all let me commend you on the survey. Just a point and that is in the survey of the banks and the analysis of what they perceive as the issues related to the persons coming in and taking advantage of what banks have available. In a climate in many communities where there is a growing industry as it relates to check cashing, payday lending, and other kinds of sources, would it have been possible to do an analysis by studying some of those customers to find out why they used that particular entity as opposed to a bank? And I think some things that stick out to me is number one, they are accessible, they are open 24 hours a day. They, secondly, and the big point is they are not worried about their money being held because they get their money the instant they take their check into those entities. The question then for me is, is it possible to go back and take a good look at how you can, by identifying in some measure, even if it means putting some persons at those places at certain times particularly the first of the month, to find out why they do that. What makes you spend more in terms of cashing a check at one of these places as opposed to going to the bank where the cost is much cheaper? Money you saved on it? Or even put yourself into that practice of continuing going to the payday lender knowing that ultimately you risk losing everything? I mean, how do we sell the safety element of the bank as opposed to the possibility of loss by virtue of how these institutions that are unregulated are able to function?

MR. BARR: Maybe I could just say

a word about this. So prior to this study I did an analysis at the household level asking the kinds of questions that you just described for 1,000 families in the Detroit metropolitan area not a national sample of the kind that FDIC is doing, but I was able to drill down much more in depth because of the location to really have an hour and a half conversation with people about those kinds of choices. First of all I am happy to make that available to you to look at. And second I think that it is important in thinking about this, that it is not just a focus on the cost of the non-banking side of the equation but also on the other sets of alternatives to the equation. So if a low-income person is not -- can't cash their checks in a bank, or the bank is going to wait to pay them, or if they have a bank account they are going to get a lot of overdraft fees, we need to compare that to the non-financial sector. And I guess I would argue we have significant problems on both sides of that equation, both in the banking and the non-banking and, if we are going to solve this, we have to look across the entire industry, not by sector.

MR. RYAN: I would agree with that and I have follow up to that: one, a comment and two, a request for the group. But as obviously we are interested in creating incentives here. But we do need to think about other policies or attempts to address these efforts and how certainly at the state level and at the federal level how this policy may get in the way of some of these objectives. So as an example, as you all pointed out funds availability is an issue as we have heard at previous meetings. There is a reason that low-income people want the cash. There are economic reasons. They avoid fees. It is an efficient way for them to manage their funds. There are economic decisions being made into trying to get cash. So, one of the things at the state level, the state has tried to do is institutions, this came up in Texas, were denying the ability to cash "on us" checks, payroll checks, so the state tried to require that the banks honor those checks. And then they were preempted under federal law from doing that. And then another example is the funds availability issue and in my own experience I have noticed that, ironically, Check 21 was exacerbated as that float becomes a much more obvious thing, many are taking advantage of it. So for a low-income person where funds availability is really a critical issue, and they need it now and they are trying to avoid fees. We need to look at how these policy decisions at the federal level have been made and how they fit together to at least from our perspective pull this back from trying to address this issue. This might not have been the right way to address this issue but there was no debate about what was driving the state to do this. It was just a decision that doesn't apply. So that would be my request for the group is how do we create mechanisms at the federal level that one is -- for instance we, in the states, are identifying issues and trying to address them, but they are not the right fix and what can we do to the federal policy to address that issue?

MR. EAKES: I would like to have the panelists just comment on the tension between having a national goal of having less unbanked and underbanked and the prevalence of overdraft fees. It seems like to me if we said we want to have people have access to homeownership but said that the only tool you could use would be subprime, exploding arm loans. Knowing what we have just recently seen, we probably wouldn't feel good about that. We know that overdraft fees are anywhere between 20 and 35 billion dollars per year and at three or four times the entire payday lending industry fees. And so I am just curious how do we actually make an initiative because it seems like to me I can't legitimately at least in my little arena, I can't ask people to sign up for a checking account knowing that it is going to perhaps end up hurting them more than it helps them.

CHAIRMAN BAIR: Yes, I wanted -- that's a good question. Your first recommendation was requiring banks to have a safe and affordable checking account. I wonder if you will explain a little more what you think an account like that would look like and maybe those goals need to be combined somehow. You are right because the last thing we want is for the government to be pushing folks into accounts where they are spending several hundred dollars a month on overdraft fees which we know is occurring in some places.

MS. TAYLOR: Actually I can just add one thing before you address that question. One of the big fights that we had which I don't remember, when I was banking superintendent in New York was we had a rule in New York that you could not have charge fees, certain fees for overdrafts. And the state chartered banks came to us and said well the feds allow it so we have to, to be able to be competitive and people want that service. So it is an issue that is both a federal and a state issue and one thing that I would say that it is important for whatever to come up with this in this area to be applied across the board.

MR. BARR: First of all I think, Martin, you are exactly right. So I would, if I were sitting down across the table with a low-income person, I would not advise them to open a checking account. And so I think all of our energy has to be around the creation of the fostering of safe and affordable bank accounts. Then we can have a goal more people should have. So I don't think we should have a goal that we should get everybody into a checking account as they exist now. I think that would be a significant mistake. And its partly on the overdraft side which is a big deal. It is partly on the funds availability side. It is partly on the other issues of fraud and control and other things. So I think absolutely what we need is a safe and affordable account. The key elements I think of a safe and affordable account are that it be -- not a checking account -- an account that is electronically based, debit card based; that it not have overdraft facility in it. I think that at the very minimum the Fed ought to be treating overdrafts as a Truth in Lending issue and not a Truth in Savings issue which would significantly change the way we think about the problem. I think that the FDIC's overdraft report, there is a way of providing a lot more light on this problem and the FDIC has shown a lot of leadership on the overdraft area under Chairman Bair. So what should this account look like? It needs to be electronically based. It needs to be debit card based. No checking account. No overdraft. It should have a way of receiving income electronically through direct deposit, state benefits, federal benefits and income received. Ideally it would have an automatic savings feature so you sign up in advance. Every month I am going to put $5 of my income or $10 or $100, whatever that amount is, into a separate savings pocket in that account on that card that is somewhat harder to access than the other funds and build up savings in that fashion, and it could have a Small Dollar Loan product. So, instead of going to a payday lender for a short term two week loan, which I know I am not going to be able to repay in two weeks, I have in my bank account the possibility of getting a six-month self-amortizing loan with a decent interest rate because the bank is not facing very much risk. I have direct deposit into the account. They could direct debit out of the account. I can get a much lower cost product to the customer at lower risks at the financial institution. So I think on each of those dimensions -- transactions, savings and credit -- there is a way of creating a safer, more affordable product for low-income people than financial institutions could do now.

MR. GRZYWINSKI: This may be heresy in this group but it seems as though we are asking the question from the point of view of banking, okay. I guess my question would be whether either in this survey, or Michael, in the other work you have done or any other work anybody has done, have we ever looked at a question from the point of view of the consumer? In other words is the consumer making an enlightened and correct self interest decision? When Martin commented at the beginning, you used financial services instead of the word banking, okay. It just seems that if we are going to be honest with all of ourselves, we ought to think about what is the correct language here and should we be thinking about ways in which banks do provide services through Wal-Mart, or through other kinds of providers and is that an additional vehicle? So I guess the question is, is there any good data anywhere that anybody here or anybody else has done that looks at this question from the consumer product.

VICE CHAIRMAN GRUENBERG: Ron, if I could comment and then perhaps Barbara would want to expand. In the sense of this survey that we are undertaking, there are a range of questions that both go to the financial services people are utilizing including the alternative financial service providers. So you ask the question from the consumer's point of view, that's really the other side of the coin of this bank survey that we have done. We are going to try to get some detailed national information on the services people utilize, why they are utilizing them, and the obstacles they find to utilizing financial institutions to try to gain some perspective on that issue which is really key information to get.

MR. BARR: Just to follow up. I think that national site is going to be a huge improvement on what we know. In the Detroit area study I did, I spent a long time trying to address that question from the consumer point of view and across the banking and non-banking sector. So, the approach that I took was consistent with what you described. Let's see what people do and why they do it not study why they are doing this or that in and out of the banking system. And they do often make quite good choices. So we need to decide how do we give them their constrained choice set? That is, give them the lack of good products that they have. So I'd like to see us look at how do we change the products that they can choose among so that they can choose something, you know they are making the best choice. The choices are bad choice because they are only bad choices to make. I don't think we have solved the problem. One aspect that I want to particularly highlight because Ed and I did it together and this is really Ed's pioneering work in that area of consumer choice methodology. We did a study in this Detroit population of what kinds of particular products and services do low-income consumers want when given realistic tradeoffs among products. So we looked at different kinds of debit cards, payroll cards, payment cards, bank accounts. And by varying the features across these different accounts we were able to see what would be the hypothetical take rater. How much desire is there for different kinds of products and features among the unbanked and I'd be happy to share that with the FDIC and to make it publicly available at any financial institution that wants to use the model.

MR. TUFANO: To pick up on Martin -- well on this past discussion. We have done a national survey, 22 dimensions of financial activity. And it is interesting. You cannot study anyone at any one time. So somebody who is a payday lender, conditional on being a payday lender, being a refund anticipation borrower is quite different. So there actually are types and so we can't actually think of them one at a time.

Tim Martin's point, we actually did a study on overdraft, specifically on people who bounced out of the system and it is important to understand that the consumer level who that is, specifically it is over represented by women who are heads of household. It is over represented in minority communities. It is overrepresented in the young and in the old, less so in the middle-aged. It is also overrepresented in certain banking environments. So you can see the banks are playing a role here too.

And then a question for Ed, because I wanted some clarification. In some of the work that we have done, we found this curious thing -- because the checking account is the entry point for a bank product, that folks are denied savings accounts who don't want checking accounts, just straight up want savings accounts and are willing to forego the checking part, but they are denied savings accounts because of check systems.

MR. HENDERSON: Because of what?

MR. TUFANO: Since the bank procedures won't allow them to have a checking account because of check systems problems. They are also denied the right to have a savings account. And we found that every time we sample, we seem to find that is true. But I could never get a sense of whether that is a common phenomenon. Do you have from your survey any insight on that?

MR. BACHELDER: We did ask that and analyzed that direction because there were lots of things to look at to be explored for the data that was gathered in terms of that crossing. But I guess, if you think about the kinds of concerns we should get to is the difference the banks have in terms of how long they will tolerate somebody in an overdraft state and we had a specific question on that. And the answers were basically from within a month, you know, within a month we are going to close your account to 180 days. So a real long range. Some banks had programs to help you finance your overdraft fees for a longer period of time to help you get back on track and would downshift you to a more limited account to retain you. But I think that entry point and if you just look at the customer proposition and these are self positions, but if you were to think about somebody shows up and they have a choice. Who do I want to do business with? You may look at one of these segments of demographics and I don't know if Barbara could slide back to slide 19, but if you look what the alternative service providers show. I mean what is it that they do? Most all of them do check cashing. Most all of them will do money orders. They definitely want to do bill point payment. They are big marketers for prepaid cards where banks have much more restrictive policies on prepaid cards for example. So there is a lot of demographic overlay that basically if you pull everything up and flip it over you start to see the market difference because of banks' regulations, approaches and business model. Maybe it isn't worthwhile for each bank to pursue all of these various, but it is enough to get that front end part of the transactional services that people need to do everyday and if you are a cash based consumer that you were describing that is how I do my budgeting. I have no more money in my pocket, no more spending. But I think if you really look at how banks are not making this easy to do the transactional payments in a safe way, I think that would be one area to explore that might overlap the segments.

MS. TAYLOR: I am going to cut

this discussion off because we are already about 45 minutes behind. You guys are going to be at lunch, right? So we can continue this discussion over lunch. I know that there is a lot to say on this but I think we need to hear from the banks to learn what is actually happening from that point of view.

I just want to say thank you so much. This has been really enlightening and it is a great study. I am looking forward to reading it in detail and Barbara, thank you for your work. Thank you so much.

So let's go on to the next panel. I think it is also yours Barbara.

MS. RYAN: As I mentioned a little bit earlier, a very important component of the FDIC's unbanked survey was a development of 16 case studies that highlight various strategies that financial institutions have employed to reach the unbanked and the underbanked. And we did these to demonstrate that opportunities do in fact exist for banks to serve these markets both profitably and effectively. The case study banks themselves demonstrated an array of approaches. In fact, in the unique perspectives of their own market areas, each case study bank has targeted a customer base and has developed a strategy and the banks, among the 16, they represented a variety of sizes, geographic locals and demonstrate that different types of banks can successfully serve the unbanked and the underbanked. So this morning, four of the 16 case study banks are going to share their approaches. These particular institutions were chosen. They reflect a variety of types and sizes, types of approaches, sizes of banks. Our first panelist is from Mitchell Bank, James Maloney. Mitchell Bank is a small independent institution located on the south side of Milwaukee, Wisconsin. Mr. Maloney is president of the bank and chairman of the board of the Mitchell Bank Holding Corporation and Mr. Maloney is also a member of the

Alliance for Economic Inclusion task force.

Our second panelist, Peter Mosbacher is from Amalgamated Bank, the Nation's only union-owned bank. Amalgamated has branches in New York City and four other states across the county. Peter Mosbacher is the bank's senior vice president responsible for developing and managing the community development department. And this includes identifying the banking and credit needs of the communities that the bank serve, working with the bank's senior management to identify retail branch locations, bank products, programs and services that respond to those needs.

Our third panelist is from Citibank. Victor Ramirez is a community relations officer for that bank and is responsible for developing and managing relationships with non-profit organizations in underserved areas of Los Angeles, Orange County and the Inland Empire. He also serves as a subject matter expert for Citibank on various economic development topics including asset building strategies and he is a member of the Los Angeles Alliance for Economic Inclusion.

Our fourth panelist is from Monroe Bank and Trust, a community bank that operates 25 full service branches in Southeastern Michigan. Mary Jane Town, is the bank's senior vice president and director of marketing, responsible for product development, public relations, corporation communications, advertising and promotion.

And with that, I look forward to hearing from our first case study bank, Mr. Maloney and Mitchell Bank.

MR. MALONEY: Good morning. First of all thank you for the invitation to come here today and let me also commend the FDIC and the Alliance for Economic Inclusion for maintaining the focus on these issues in these difficult times. As a small bank you have no idea what your support does when we approach the directorate and shareholders with regard to various ideas that we have for new products. From your support and your focus on these issues is very important to us at a small bank and we rely on you for that and we thank you for it.

We at Mitchell Bank are part of the FDIC's small dollar loan pilot. That is really where I am going to speak about most this morning because that is our current product. We offer a whole suite of products to non-customers and to the unbanked and they have all been successfully received. But the pilot consists of 31 financial institutions in which we are all offering small dollar loans and we are sharing our experiences in the profitability of the product. We are also very concerned with the issues of safety and soundness of the product. Sheila Bair and the Alliance for Economic Inclusion have been working on this pilot for over a year and

Chairman Bair has been at it for many years. Chairman Bair, and now the FDIC, has been a consistent champion of the idea that banks can competitively and profitably offer small dollar loans to compete directly with payday lenders. This goes back to her days at the University of Massachusetts at Amherst and, if you ever want to get a real understanding of low cost alternatives to payday loans, I would ask each of you look back at the June of 2000 study of the Annie E. Casey Foundation. A lot of this stuff is written and people don't really read it. In preparing for my remarks here today, I went back and reread this and I have to tell you that it is still very relevant. It identifies the issues. It involves the payday lending. It is small dollar loans and the opportunities that small dollar loans present to community banks is, even though it is four years old, it is informative and it discusses all of the current issues. Chairperson Bair has been in the forefront of the issue and has consistently pointed out to banks that every user of a payday product has a checking account in the financial institution. They are our customers. They are bringing our customers bank -- postdated bank checks to our bank and cashing them and charging their interest rate. Now, the existence of a bank account is a requirement to even get a payday loan. We are not mining our data in our banks to determine which of our customers are using payday lenders so we can directly target them with the alternatives.

Last June the FDIC issued its guidelines and recommendations for small dollar loans and again that is listed on the website. And I have to tell you that what we have tried to do is incorporate every one of these recommendations and guidelines in our small dollar loan product. In your materials I have also given you a complete, which is a detailed description of our product. Our product has evolved over time. We had to make changes and we've reached out to non-customers with this product because we were limiting it to our customers and that became too limited.

So feel free to look and use the description. We have spent a lot of time on it and it is has been evolving over the last year and a half. We still don't know if this, how this will perform and whether or not it can be profitable as a stand alone product. We have made a number of loans and all of them have performed extremely well, much better than we ever imagined. We've only had one loan go bad, not bad, 30 days past due or 60 days past due and, when we looked into it, it was because of a mistake that CSR made in issuing the loan. That performance on the small dollar loans that was issued has been extremely helpful because in rolling out the program I have to tell you that the directorate and manager of the bank is very skeptical of whether or not this can be done.

So, now we believe that we are starting to develop information and a track record that indicates that it can be done in a safe and sound manner. So the FDIC believes that the product can be created in a cost effective, safe and sound manner, and it also presents financial institutions with an opportunity to address the longer term financial needs of their own customers. It also provides us with an entry point for savings encouragement. We need to break the cycle of repetitive rolling over of debt. The basic purpose of a small dollar loan as we see it is to break the debt trap and the reoccurring cycle of escalating loans which is part of a payday lender's business model. One of the things that we and I think the FDIC are pretty firm about is that these small dollar loans cannot be fee-based overdraft or bounce protection programs. The rates for those programs many times exceed the APRs charged by even payday lenders. They create a product we believe that is no better and at times is worse than payday lending. The programs are pointed to, those programs are pointed to by the payday industry to justify their own APRs. This is particularly true where financial institutions allow people fee-based overdraft protection and actually allow people to make cash withdrawals using ATM cards over their balance, and where you make a mistake and a cup of coffee costs you $35 to $40 on that point of sale using a debit card. So what we need to do is to offer small dollar loans, fully amortizing, that people can pay without having to face the cliff of the two-week loan.

MR. FISH: Could you just help us orient your comments, Mr. Maloney. Could you just tell us how many loans you've made and what the dollar amount of the assets outstanding are?

MR. MALONEY: The total dollars right now, what has happened is that when we first got started we limited our loans to customers who have been with us for six months. That proved to be very limiting. So what we did is we recently opened it up to non-customers and ITIN borrowers which is a big part of our population. Sixty to 70 percent of our existing customers are ITIN borrowers. We are now up to about 25 to 30 loans. We've had no defaults and the dollar amounts are basically what we see is everyone borrows $1,000. Our loan goes from $300 to $1,000, six or twelve months --

MR. FISH: I understand. So the credit history is less than a year?

MR. MALONEY: Yes it is. But the six month loans that we've had have all paid on time and paid off.

MR. FISH: Right, I understand.

MR. MALONEY: Also what we do is we allow a savings, we require a savings component. Ten percent of the loan has to be placed into a designated savings account. We give it a favored interest rate, higher than our normal rate for our savings account. That account can remain open after you pay off the loan. You can add any funds to that account. You will always have an account at our bank that has a higher interest rate than the normal accounts. So what we are looking at is a fully amortizing term loan not based on overdraft or fee based protection. We need to really streamline our underwriting in the process making because we need to mimic what the people want from the payday industry. We want someone to be able to walk into our bank and get a loan within 15 minutes, which means at most we pull a credit report, look to make sure that they have a $1,000 of income and the customer service representative is authorized to issue the check or the cash on the spot based upon that credit score.

As I said when we first got started we were limiting it to customers. Now what we do is we open it to non-customers, the ITIN borrowers, which gives us the opportunity to bring someone in. They need a loan. We will make them the loan. They have to open an account and they have to have direct deposit into that account. And we also reduce the interest rate if they allow us to do automatic transfers from that account.

A couple of issues have arisen because people don't have -- necessarily have credit scores. What we've done is we just arbitrarily said that if you don't have a credit score we are going to presume -- if you don't have a bad credit score, but you have no credit score, we will presume that you have a middle level credit score because not having credit isn't bad credit. The payday -- we do look at the credit scores. As we look here, these are basically the breakdown of the credit scores that we use and we escalate the rate based upon the credit scores. The payday industry tells us that whether or not somebody has a 499 credit score or a 528 credit score really doesn't make any difference. It is a risky loan regardless. But so far we haven't had any problems even with the loans with very low credit scores. So, one of the things, too, is that the credit report does not track what people's use of payday lenders have done, what payday loans they have outstanding. We will allow people to borrow money to pay off a payday loan. So, now if you have a credit score of below 570, we initially require that you go through three financial education classes before you got the loan. Well no one is going to do that and so what we did, we made one referral for one-hour session with a consumer credit counselor and you establish a budget and we will make a loan to you regardless of your credit score.

So in the end, all of these people are our customers. And we can complain about the payday industry and what they don't offer but unless we have something to offer them, we have no right to complain. What we've learned about the unbanked is that they may be banking financially illiterate but they know how to get their financial services, and they know the way they like to get them, and they are willing to pay for them. So, it is a burden to try and overcome some of those issues but I think it is something that we can do. There is a variety of issues with regard to Truth in Lending and things that we have that we've struggled with a little bit that makes it a little more costly for us to do this other than the payday lenders and with the consumer credit and the collection issues, but they are all issues that can be overcome. We are very high on the small dollar loans. We think that this is a great initiative and it is the current product that we are focusing on at this point. So, with that I think, is my time up?

MS. TAYLOR: If the other panelists here could limit their remarks to as quickly as they possibly can because we are really behind schedule. I hate to do that.

MS. RYAN: Let's move on.

MR. MOSBACHER: Thanks Diana for that added pressure. You can see glimpses of our Depression-Era art there. Running through the slides clues you in. For those of you that don't know, we are the nation's only union-owned bank remaining going back to 1923. We are based in New York City and as of early 2006 under new leadership with Derrick Cephas as president and CEO of the bank. He hired myself and a whole bunch of other new senior team managers over the past two and a half years to really help transform in a short period of time to an urban community bank going into low/moderate working class neighborhoods both in New York City and nationally without losing sight of our history which is serving unions and union members, most of whom are immigrants and working class people.

We are still relatively small, retail-wise, although we have an institutional trust division and commercial banking, real estate banking etc. So we are truly full service. But retail banking, we have 13 branches in New York City. We are also in Lyndhurst, New Jersey, Pasadena, California, one branch in Washington, D.C. I would be curious to know how many of you all have seen it or been in there. And three supermarket branches in Las Vegas where the 60,000 culinary workers reside and have asked us to come in because they have a toehold or a foothold, whatever you want to call it, into the Vegas market. We had to buy three supermarket branches from Nevada State Bank and our hope now is we will open a full service bank there in a short time. We are in a growth mode and Derrick has ambitious plans despite the severe recession to continue opening branches both in New York City and other markets. A lot of our branch expansion in New York City, we've been in partnership with Diana Taylor and the New York State

Banking Department, New York City Comptroller's Office and New York State Comptroller's Office. I believe New York State is still the only state that offers the special banking development districts and other states are looking at them. We found it to be a phenomenal incentive for us to locate into low-income, underbanked, underserved areas. So over the past two to two-and-a-half years we've opened four branches, one in the South Bronx, one in Long Island City, Queens, and another in Bed-Stuy, Brooklyn and another in Sunset Park, Brooklyn. We do get low market rate deposits for both the city and state. From my perspective, the advantages have been the partnerships and the introductions that have been made through the banking development district process -- meeting with local government agencies, meeting with local community-based organizations -- to get their buy-in and approval for this. And they in turn say, well fine, but these are the things we are looking for as you are coming into our community. So the plan that we produce and submit to the regulators incorporates many of the ideas the community gives us.

Again, given the bank's roots, serving working class people, we've always offered totally free checking, low minimum balance, no charges --

MR. BOSTON: Peter you may want to hit your slide.

MR. MOSBACHER: I'm sorry?

MR. BOSTON: You may want to hit your slide?

MR. MOSBACHER: Yes, thanks. Sorry. So again this is something that many banks are offering these days. I guess what is more exciting is that we recently launched a second chance account for either checking or savings accounts to help people who may have had some minor issues in the check system get back into the banking system. We do this in strong partnership with a lot of our community-based organizations. We find that they are best qualified to identify potential clients for these second chance accounts. So some of the highlights of the program are the minimum of a cent to open checking and a minimum of $5.00 to open a savings, no minimum balance after the opening. However, only an ATM card will be issued and there is no balance protection. We strongly prefer direct deposit. This then migrates people into a full banking program including financial education and eligibility for a $50 bonus to help them establish an open-end account.

MR. FISH: What is no bounce protection?

MR. MOSBACHER: We offer that with other products but with this one we would not. But if there is an overdraft that there would be no protection on that or a check bounce rather.

MR. FISH: I still don't understand.

MS. TAYLOR: If you issue a check against your account and there is not enough money in it, it just bounces. They don't pay it.

MR. MOSBACHER: Right. We don't cover, right.

MR. FISH: So no overdraft fee but the check doesn't clear.

MS. TAYLOR: You do get charged for a bounced check.

MR. MOSBACHER: But again, it is a stepping stone to get people back into the system that normally wouldn't have the opportunity to get back into the system. And then it is a stepping stone for them to go into a more traditional account.

MR. FISH: I'm trying to understand what is special about this account.

MR. MOSBACHER: The fact that it is offered to folks and they do in fact appear on check systems and who most banks would not allow to open a checking and/or savings account.

MR. FISH: Okay, but it wouldn't be that different from a checking account at a bank if a person could open the account.

MR. MOSBACHER: If they could.

MR. FISH: I understand, okay. The account itself isn't different. It is the population.

MR. MOSBACHER: Yes, I mean the account features are the same.

MR. FISH: I got --

MR. MOSBACHER: I wouldn't brag too much about the account features because clearly no bounce protection is not something I am proud of but we put it in there. The minimum to open the account, the minimum balance after opening etc. and again only having an ATM card. But the main issue here is really there are so few institutions that are even giving check systems a look to really peel back the layers and say what are the issues here. If it is not outright fraud, there is so many other things that put people in the check systems and disqualify them from opening any type of account. So I think that is a strong way to start to open up that door.

This is a fairly new -- the second chance account is a fairly new thing for us and we are rolling it out immediately in California where the State of California has opened up the Bank of California to bring in the unbanked and underbanked and they have some product descriptions that they were requiring banks to participate in and I think the second chance account did beautifully with their program, but we only signed the agreement on this about a month ago. So unfortunately I have no hard data to give you as to how we are doing. I am optimistic we are off to a good start. We are very proud of our in-house financial education program, which we brand, Money Sense. It was done in partnership with a very strong New York City based non-profit called the Coalition for

Debtor Education. There is a very strong focus on behavioral finance, the psychology of money, in terms of how money affects behavior and how behavior affects money, important issues for all of us regardless of income level, but particularly for low- to moderate-income people. So it does put a different twist on financial education and we do this in-branch. We do this at community centers, churches, etc. We do put in, we offer upon completion of the classes a $50 coupon that can be redeemed to establish a new savings account but it has to be redeemed after maintaining an account in good standing for at least one year.

With our union members we offer Group Advantage Banking, discounts of products and services, including direct deposit and payroll and lunchtime, what we call Lunch and Learn, financial education seminars tends to be very well received both by employer and employee.

Very quickly, some of the highlights of Group Advantage Banking. It is direct deposit, payroll, free checking, no minimum balance, and savings and money market accounts, online banking, bill pay. We are part of the Allpoint Network so again no fee, ATM banking and reduced rates on various loan products and, as I mentioned earlier, the Lunch and Learn program. The partnership, the very strong partnership we have with our union in New York City DC 37, most of whom or all of them are municipal employees with New York City residency requirements. The union, the bank, New York City, HPD [Department of Housing Preservation and Development] and NHS [Neighborhood Housing Services] of New York City formed a partnership about five years ago to assist these union members in saving for affordable housing in New York City. It has been a very, very strong program. It is a place-based program operating out of union headquarters in cooperation with legal services. It has put hundreds, if not thousands of working class city employees, into affordable housing in New York City. It does provide five percent of units in city-sponsored lotteries for their homes and up to six percent through HPD.

And last but not least in Las Vegas, again we are relative newcomers to that market but working with the unions, they want to migrate more direct deposit of paychecks so we launched a payroll card product for them. It is an alternative to a deposit while meeting direct deposit requirements. And then we put in an ATM at the union's headquarters for payroll card customers to pay a reduced surcharge to withdraw the funds. And again this serves as an entry point for transitioning the unbanked and underbanked union members into mainstream banking activities.

And last but not least, real quick, the last strong partnership we have is with

New York City Housing Authority and our Banking Development District Branch in Long Island City which is surrounded by the largest New York City Public Housing projects anywhere in the city, probably anywhere in the country for that matter, totally underbanked area. Most of the housing project folks were victims of expensive check cashers, very little access to traditional banking product services. So we did go in and have formed a nice relationship with NYCHA [New York City Housing Authority] and with a strong local non-profit called ERDA, East River Development Alliance to offer financial education as well as a special program where NYCHA now allows unbanked residents to pay their rent at the bank. They can accept payments in cash for a small fee, process payments for remote capture, and transfer the payments to the housing authority. So that is for like $2.00 a transaction as opposed to previously they were going to check cashers and paying $5.00,

$6.00 or $7.00 a transaction. At the same time we can migrate them into starter accounts or the second chance account or we can offer them the Money Sense financial education program.

MR. FISH: Peter on the second chance account, how long have you had it and what's been your charge-off experience?

MR. MOSBACHER: The second chance account is about three months old.

MR. FISH: Okay.

MR. MOSBACHER: So unfortunately no --

MR. FISH: It will be very interesting I think for the FDIC in time to understand the charge off experience on that account versus a normal checking account.

MR. RYAN: I would be interested to see what you are seeing in bounced checks versus other accounts that you have. I kind of like that there is no overdraft here because there are consequences to bouncing a check but there aren't overdraft that may in itself be enforcing financial literacy.

MR. RAMIREZ: Good morning to Chairman Bair and to the members of the advisory committee, the other panelists and audience. It is a pleasure and honor to be here and to be selected among the various local AEI working groups to be able to share some of the leadership role that the city and United Way has played in making a difference in the community. I'm so happy to be here although my luggage did not arrive. So please excuse me for my attire. It is great to be here.

A couple of years ago I heard a spin on a national panel and we were discussing ideas on helping working families to save part of their tax refund. And to use it as seed money for developing long-term relationships at financial institutions. And there were two issues that we wanted to really address. One was really how to increase the national household savings rate and also how to bank the unbanked and how to become a part of the financial mainstream.

So I walked away from the conference with four main questions in mind. What kind of new model and approach do we need to promote financial inclusion for all Americans? Second, what policy options are worth pursuing in partnership with regulators and others at the federal level? Third, what can community organizations do to effect change? And fourth, what is the role of the private sector or financial institutions in providing products and services that address consumer needs? And because each of us independently by ourselves cannot really make the kind of impact that we can collaboratively, it is obvious there needs to be a value in order to be a value and effect, there needs to be a private, public and non-profit collaboration. So the work of a local AEI asset building committee is a prime example of such a type of collaboration between city, United Way of Greater Los Angeles, regulators and a lot of non-profits. It helped us to identify the community need to help develop a model and to implement innovative savings programs such as the Ramp-Up program which is now -- I am going to share with you in a moment.

So I think on a daily basis we need to ask ourselves what can financial institutions do to make a community impact. There are a lot of questions we ask ourselves on a daily basis. What is our role in community impact? There are many things that we could do to effect change in the community, I want to focus on two main areas where banks can make a difference. One of them is in helping develop products and services and by providing resources to support community organizations that really help effect that change. The city has invested resources in developing products such as the CitiEscrow product that is highlighted there. It is really the platform that we use online to help support a lot of non-profits around our individual development accounts. We have thousands of accounts right now nationwide. We also have developed an innovative access account that has been recognized by regulators because at a low cost, very flexible checkless account for entry level individuals into the banking system. We also invested resources to develop our own city financial education program partly inspired by the FDIC's own Money Smart program. So, we have a great resource. It has a manual about this big. We call it the bible for financial education, CD-ROMs and a lot of online resources. And also we will be highlighting the collaborative relationship with United Way of Los Angeles to develop the actual Ramp-Up account program.

Other resources that Citi has been able to provide is financial resources, human resources as well as intermediary resources for capacity building: financial resources in terms of grants and contributions to support the capacity and non-profits; human resources -- volunteerism, conducting financial education, even doing tax preparation services at the volunteer income tax assistance programs so training, technical assistance, board service; and then, through the intermediaries, we provide some funding for training for non-profits in the communities.

Now I like using this slide because it shows a simple model of asset building. I like to call it the cycle of asset building to combat the cycle of poverty. And it basically shows the importance of building a continuum of services in the community that creates linkages between various asset building programs by leveraging various resources. So if we invested resources to help individuals build their savings as you can see from the top number one. To help them build assets, build their wealth, build equity and in turn they are going to be able to save more money and build additional assets. So that is that in a nutshell.

So our goal in Los Angeles, to make sure that working individuals leverage as many community resources as possible so that they have it available to them. For an example, if an individual comes in and learns about the Earned Income Tax Credit, for example, the marketing campaign, a grassroots effort, they would be able to be referred to a provider site and get their taxes prepared for free. At the provider site they would be able to get a bank account to directly deposit their refund so they don't have to use a rapid refund and then, hopefully, be referred over to an IDA program for financial education. So we want to make sure that no matter where an individual goes into this continuum of services, they will be able to benefit from the various different services that we are talking about.

An example of this time of collaboration of connecting the different pieces, connecting the various dots is our work with United Way of Greater Los Angeles. Since 2007, we have been working with United Way on various programs and projects and these include funding the *Unbanked Problem in Los Angeles* report that helped us develop some strategies specific to Los Angeles on how to overcome some of the banking to the unbanked barriers to Los Angeles, and we've been able to use this as part of our Bank on LA campaign that we are working with the mayor's office as well as other efforts. We also helped establish and fund the Asset Building Collaborative. We call it the ABC and partnership with the Federal Reserve and it is a convening, a convening of practitioners, lenders and researchers on asset building topics specifically to Los Angeles that address our unique needs. We also funded the development of an online asset building directory. This is a user-friendly online database where individuals can type in their address and also their main area of focus, for example, first time homeownership and they would be listing, getting a list of all the various providers in the area. The various topics include financial education, small business development, foreclosure prevention and free tax preparation services. Also, United Way of Los Angeles has recently housed the Los Angeles Earned Income Tax Credit campaign partnership and Citi has had the pleasure of chairing that partnership for the last four years.

And then we will be getting into the Ramp-Up accounts that we have partnered with United Way and network of their agencies. And we are working in 2009 in the future. We are working with the City of Los Angeles, Federal Reserve, FDIC and a collaborative of other partners for launching the Bank on LA campaign. That was modeled after the Bank on

Central campaign and many others, Bank of New York, etc.

We are also developing something we are calling the asset building specialist certification program. This is a training for individuals in the community from non-profits on how to leverage and how to identify various programs that individuals can qualify for. So it is a 15-week program individuals will go through and they will be able to refer people when they come into their agency. And so this would be a long term relationship that we are working with the various organizations and the City of Los Angeles.

And then finally one of our goals, long term goals is to be able to replicate the rapid account and various markets served by Citi and United Way.

I just wanted to give you a brief history of how the Ramp-Up account was developed. Citi has also supported other United Way programs such as the Saving for the

American Dream program. It is their individual development account. It was launched in 2001 and it is one of the nation's largest IDA programs with about 1,700 accounts. It is the only IDA collaborative in Los Angeles and it currently has 18 county-wide partners. They are all focused on homeownership, micro enterprise and post-secondary education. Their role at United Way is to provide program and financial support to other local non-profits to make sure that they have compliance monitoring of the federal grant so they collect all the data and report it over to the federal government. They provide quality assurance training to the non-profits and capacity building for the organizations. And this project has been used as a national model by other United Ways and to build other local IDA programs.

Some of the outcomes that come out of this collaborative. This is data from the middle of 2008. There have been 85 homeowners in Los Angeles County, 376 businesses have started or expanded, and 20 educational investments have been made. And an important note, that 28 percent of all accounts that have been opened have resulted in actual asset purchases. So it is a very good number.

In our discussions with United Way, we wanted to address some of the challenges with general savings programs and IDA. For general savings programs, we realize that we needed to come up with an effective savings program for opening new accounts. Some of the things that we did before, a couple of years ago, we were giving bonuses for new accounts that were opened through Citi of $25. What we found out is individuals would use the account for directly deposit receiving their account, they would take their refund and the $25 and never use the account again. So this front-loading of the incentive wasn't working. We were trying to figure out more of a back-end incentive and this is what actually led to the

Ramp-Up account. We saw as a result of these efforts, they created a lot of unfunded or inactive savings accounts and there were also very inconsistent savings patterns. We wanted to see how we could create long term savings relationships with financial institutions. When we looked at the IDA accounts we saw that this is the model that United Way was using -- was a high cost model. It was high cost because the cost of management of each account was pretty expensive when you looked at per account. There was also high touch, requiring a lot of case management -- individuals doing a lot of follow-ups, doing a lot of case management. It also had a low tech IDA structure. There was no online management system for looking at all of the accounts and trying to see who is saving at what rate. We were also concerned about something we called the discouragement factor. This was for individuals who completed the entire IDA program. They did the financial education.

They did the savings for two years to three years. At the end of the day unfortunately they were not able to actually purchase their assets for various reasons, either lack of credit, lack of capital, or in the case of Los Angeles a couple of years ago, lack of affordable housing. The housing costs had gone too high. We were also concerned about any unused federal and non-federal match dollars that were raised that were being unused. All of this money was being left on the table so we had to come up with a solution of what to do with this unused money. We didn't want to lose all this community equity and then give it back to the federal government as unused match dollars so we had to come up with another alternative. And then finally some of the guidelines that were surrounding the IDA program were too restrictive. We wanted to be more flexible with the income guidelines, asset test etc. So we were very interested in looking at a new model that addressed a lot of these challenges.

And that leads us to our Ramp-Up account. The bank partnership with United Way and the leadership of Ed at the United Way we were able to come up and identify a product that is a low cost, flexible, no strings attached savings program that provides an accelerated interest rate. It is a highly subsidized interest rate of up to 21 percent APR. And this provides an incentive for consistent long term savings. The savings sector was about 15 months. It could be extendable for beyond that depending if the individual wants to save a little bit more. There was no minimum balance requirement, nor minimum monthly deposit requirement and the rate of interest ranges from 15 percent to 21 percent based on the initial deposits and also the monthly deposits that they are making. A very important point is that the subsidy, the interest subsidy, is tax-free because the funding is actually paid by United Way. They use their own fund-raising efforts to raise the money for the subsidy and so it is considered a grant or a match to the participant, so it is tax-free. So really that 21 percent could be compared to a 30 or 35 percent when you look at the tax-free features. Individuals can withdraw the full savings at any time for whatever reason without any penalties. Purchases do not have to be limited to asset specific purchases such as homeownership, business expenses or education. It is very, very flexible. They can be transferred to other savings investment products such as under the IDA account or an IRA or a CD. Financial education is highly encouraged, but it is not a requirement for them to receive the subsidy as opposed to the IDA program where you need to do ten hours of financial education in order to qualify for this subsidy. Currently we are using the CitiEscrow account platform which is an online bank account opening product as the main platform for opening accounts.

I wanted to share this basic grid. It shows the savings and interest rate and model for the actual different abilities for people who save. Since we are trying to promote this currently during tax season, we are encouraging individuals to make an initial $500 deposit from their tax refund into this account. Then they make a commitment to save over a period of the next 14 months, $40 a month. They will then receive an APY of 19.35 percent and at the end of their savings goal, they would have accumulated savings and interest of $1,312. And you see right below that, a different model if somebody decides to have a larger initial deposit of $700. The interest rate is a little lower, 15.1 percent but at the end they end up saving $1,659.

MR. FISH: So could I open this account?

MR. RAMIREZ: No, everybody asks

that. I wish I would be able too. You have to LMI so we are looking at 60 percent of area meeting income for Los Angeles. So they qualify for the Earned Income Tax Credit they automatically qualify for this.

MR. FISH: I wasn't being cute about that. I'm trying to understand how you overcome a lot of legal issues that that presents.

MR. RAMIREZ: Legal issues in terms of --

MR. FISH: Discrimination.

MR. RAMIREZ: For income levels?

MR. FISH: Yes.

MR. RAMIREZ: Well since it is a grant program --

MR. FISH: You feel legally that you are on good ground that say a person earning $62,000 a year walks into this branch and wants to open that account that you can say no.

MR. RAMIREZ: I think because of

the purpose of the programs to help build assets for --

MR. FISH: I am asking a legal question.

MR. RAMIREZ: We haven't had the opportunity to think about that. That is something we can definitely come back and consider, in terms of discrimination, right?

MR. HENDERSON: You have faced no challenges so far.

MR. RAMIREZ: And it has been a very small pilot program. The funds are provided by United Way, raised by money for helping --

MS. FUCHS: It is the United Way piece that covers you.

MR. RAMIREZ: Right, we are not paying the subsidy.

MR. FISH: Why is that?

MS. FUCHS: Because they are a charitable not-for-profit and they can create any kind of standards they want in giving out their money.

MR. RAMIREZ: It is part of their mission.

MR. FISH: Oh, I see.

MR. RAMIREZ: Yes.

MR. FISH: Okay, thank you.

MR. RAMIREZ: But a good question.

MR. RYAN: The interest rate is scalable downward based on the numbers so the 19.5 and 15.1 on the larger amount.

MR. RAMIREZ: It is scalable because there is only a maximum savings incentive that we can provide per account. It is about $250, so the higher the initial deposit, the lower the interest rate, so we don't overpay anybody.

MR. RAMIREZ: The next couple of slides are going to show you a side-by-side of the Ramp-Up accounts with the IDAs.

MS. TAYLOR: Since I think everybody has this so we can sort of look at the comparisons ourselves.

MR. RAMIREZ: Okay.

MS. TAYLOR: If they have questions about it, they can ask. So if you could wrap up that would be great.

MR. RAMIREZ: Okay.

MS. TAYLOR: Okay, thank you.

MR. RAMIREZ: The only thing I wanted to say about this is that Ramp-Up accounts are by no means supposed to replace IDAs. They are suppose to compliment them and maybe as an alternative for those who cannot use IDAs or aren't ready for an IDA.

The Ramp-Up account structure is a very flexible and customizable design to fit the needs of the community. We've tried various programs where we co-enrolled somebody with an IDA account so they had a Ramp-Up account and at the same time an IDA account. We call that a hybrid Ramp-Up account. Individuals who aren't able to qualify for the IDA asset match, they can still qualify for the incentive. And you are very flexible depending your eligibility criteria based on local area income, purchase requirements etc. There is a lot of flexibility in this program. And the main highlight I wanted to focus on is some of the outcomes from this program. The pilot program was launched in 2007 in June and it was in effect for about 12 months. Our goal was to actually open up 40 accounts. We over-enrolled with 42 just to make sure that we could make up for the possible attrition rate. According to the accounts that were opened in the first two months, participants were co-enrolled in the IDA program. Within the first 90 days of the program, there were over $12,000 in deposits, average of $300 in an account. After the first 180 days there were $23,970 in cumulative deposits. Some of the numbers that we looked at was that 80 percent of the individuals made regular monthly deposits and there were actually 28 percent more savings in the Ramp-Up account as compared to an IDA saver, an IDA account using the same population and during the same time period. So we had a control group to try to compare that. With that comparison with the control group, we also saw that only nine percent attrition rates for the Ramp-Up accounts versus 26 percent attrition rate for IDA savers.

And then for the second page of the program in the last year tax season, we opened up 29 accounts at the VITA sites, average $500 tax refund used to seed the accounts. We did not offer the co-enroll into the IDA program but many were interested. The reasons we wanted to see if the IDAs had any effect on people enrolling in Ramp-Ups. We wanted to offer it as a separate account to look at that. And then in the first 90 days over $10,470 were made in total deposits and as of just a few weeks ago total cumulative deposit was about $29,610. And so far there have been two homeownership purchases that have been made using this savings account.

And then finally for our third phase of expansion, which is what we are doing currently right now with this VITA season. We expanded into four new sites for VITA and one existing site, so a total of five new locations. So we made it throughout the whole county of Los Angeles. In trying to look at various neighborhoods of Boyle Heights, East LA, Pacoima, Koreatown, Pasadena -- very culturally diverse communities -- so we are trying to see if there is -- trying to measure any variations in outcomes in the communities that are served. We have a goal of 175 accounts that should be opened by June 2009. Again, encouraging the use of $500 opening deposit using the tax refund and we'd like to replicate this as the next step throughout the whole state and hopefully have the federal government consider this as a national demonstration project in the future. Thank you.

MS. TAYLOR: Thank you.

MS. TOWN: Hi, thanks for having us. I'd like to give you a little bit of background on Monroe Bank and Trust. We are a one and half billion dollar community bank. We were founded in 1858 in the back of a drive-in store when James Buchanan was president. So we very proudly celebrated our 150th anniversary last year. We have been trading on NASDAQ since 2003 and currently operate 25 branch locations. In October of this year, we acquired 86 million dollars in audits from Main Street Bank in Northville, Michigan. We just completed a conversion of those customers to MBT. And we operate under a slogan that we like to use, MBT banking. We diligently work to try to provide products and services to folks in our area that meet the needs of our market collaboratively. We are headquartered in Monroe, Michigan, which is about halfway between Toledo, Ohio and Detroit. Our branches are in suburban and agricultural areas. Sadly, you probably know

Detroit is the heart of the automotive industry and our state has been in a recession for over five years. We have a 10.6 percent unemployment rate statewide -- I know that number is low and will be readjusted when the New York bureau's numbers come out -- 9.6 percent in Monroe and that's compared to a national unemployment rate of 7.2. I think the worst in some ways, our high school dropout rate in Monroe is reportedly over 20 percent. We have a 53 percent market share in Monroe County, less than a percent in Wayne County. And in terms of our CRA assessment areas in Monroe, we serve one low, one moderate, two minority, and in Wayne County two low and two moderate.

We developed a second chance checking product. We recognize the need to help people in our communities re-establish good financial banking practices if we could or to help them improve their banking history. And we also wanted to maintain consistency in our branch, our front line personnel at the time of account opening, especially for those people with financial challenges.

So we were -- actually introduced the concept of the second chance checking product at a trade show. We decided to research it via our product and pricing team internally. We did design and watch a pilot February of 2008. It's design is a stepping stone product. The end goal is to graduate the customer after 12 months of solid financial management into a more traditional product such as free personal checking. This product seems like its features are pretty similar to those in Peter's. No minimum balance, $50 minimum to -- or I'm sorry, no minimum balance required, $50 minimum to open. There is a $10 monthly service fee. There is an ATM debit charge but no deposit capability on the card and available withdrawal limit of $300. We've had some success with the account. We had 49 accounts opened. We are maintaining a 70 percent retention rate on those accounts and the average balance account is $194.57.

In April of this coming year, we plan -- or this year -- we plan to try to reach another segment with our launch of a young adult checking product. Again, the goal would be to graduate the young adult customer into a more traditional product at their 25th birthday. Again, $50 minimum balance, $20 worth of free ATM fees each month, ATM debit card with deposit capability and a $100 debit reward points in a rewards program that we have internally at account opening.

We think, however, that the critical elements for us reaching our customers are our financial outreach efforts coupled with our products. We have historically operated a number of programs including our Partnership in Education bank at school program that operates in 37 elementary schools in our markets. Our branch personnel literally come in and assist children and parents and open student savings accounts and the students actually serve as the branch managers, customer service reps, security personnel etc. And currently we have 7,286 accounts on our books, average balance of $551 for a total of a little over 4 million dollars in student accounts. We also offer $15,000 college scholarships annually for graduating seniors. Those seniors are selected by school personnel. However, the scholarship winner's household income cannot exceed 80 percent of the assessment area median family income, in this case $52,960. Our branch managers as many of the banks seem to do also conduct bank at work programs in area businesses for example. We do conduct one regularly at the Global Engineering Manufacturing Alliance plant in Dundee where our managers go onsite to assist with account opening and financial advice. We are also absolutely happy to assist other of our clients, customers, such as IDA schools as an example, with opening things like health savings accounts for their employees when they offer high deductible health programs. Internally we are launching a program which we are calling MBTID, which stands for Inclusion and Diversity. We think that we could stand to become more diverse as an organization and we think that we need to better understand the needs of our communities as they change. We also utilize bank-wide a relationship/sales process to both our internal and our external customers we refer to as CARE, which standards for communicate, ask questions, refer when appropriate, and enjoy the results.

We are most proud of our ENLIST volunteer program now celebrating its 25^{th} year. The acronym stands for Employees Now Linked In Service Together. It started with a reward for top employees for volunteering their time and energy to serve non-profits and organizations with their manpower needs. Over and above our annual contributions of about $250,000 in corporate sponsorships, our employees donate over 9,000 hours each year, serving over 100 groups. We have over 85 percent employee participation and just last month ENLIST presented a check to a local non-profit organization for over $10,000 in additional funds that the group raised throughout the year. ENLIST has been recognized by the Michigan Bankers Association, a Shining Star Award, as a finalist and the American Banker's Association Community Service Award category and we just recently received the Presidential Volunteer Service Award from the President's Council on Service and Civic Participation.

I am very excited about this particular initiative. This month we are launching MBTTeach or I'm sorry MBTeach, which is an extension of our ENLIST volunteer program. We have launched this or designed this to be a little more formal and strategic in our approach to financial literacy programming in our communities. We are using the FDIC Money Smart curriculum. We are training and certifying our MBTeachers internally. In fact, there is a public speaking class going on as we speak. And we have been scheduling courses with non-profits, community organizations, etc. as requested and at completion of those courses we hope to open accounts for those individuals who attend and then to provide ongoing financial assistance. We project that we will reach over 1,000 students in 2009.

The final initiative that I would like to point out is The Learning Bank, which is tremendous collaborative opportunity. In April of 2008, we closed the branch that did operate historically unprofitably in a low-income area. And we transferred the deposits to our main branch that was less than three-quarters of a mile away. We didn't want to abandon or lease the building. So we looked for alternatives and our president/CEO, Doug Chaffin had a vision for this. He was aware of a collaborative effort between Huntington Bank and Grand Rapids Community College called The Learning Corner at Wealthy. So we thought we could do something similar and bring in the partners in our community to create a similar model. So we conducted about six months of community meetings with faith-based community organizations, government, the community college, intermediate school district, local non-profits and we also looked at all of the community research and data that was available and reached an overwhelming consensus that all parties agreed to form a collaborative to support an educational outreach center in this facility, which will start providing GED prep and testing, particularly for the over 24 age group who are a little more difficult to find for; COMPASS testing to assist people with transition into college or job training; provide access to programs offered by organizations such as the United Way, the Salvation Army, the Monroe County Opportunity Program; and of course we will be offering our financial literacy courses via MBTeach. And the State of Michigan Department of Labor and Economic Growth is meeting this afternoon and hopefully they will approve a $300,000 grant to fund this project.

So I think this is in your packet. We were very pleased. It was getting very, very positive support in the community. Obviously we like positive PR as well as the next guy, but it was a very, very valid effort.

So in conclusion we think that we need multiple approaches in the communities that we serve and we think that we need to concentrate on literacy and support literacy with products.

MS. TAYLOR: Thank you. Since we are so far behind right now, what I would like to do is limit people's questions to specific questions that they might have about this program and take a quick break and come back. I want to make sure that we have enough time for discussion. So thank you very much. Anybody have specific questions? Martin?

MR. EAKES: Mine is not a question. I just wish everybody in America could hear your story. You know they think of banks as being the bad guys and really what you have described is just so incredible and I know particularly for Mr. Maloney, I have worked with a lot of immigrant communities all over the county and you probably wouldn't even know how inspiring your bank has been to those communities for all the leadership you have done on ITIN over the years. I just want to say thank you publicly and to Victor. I've done a lot of work recently with Eric Eave and Kevin Thurn and others at Citi who have really taken beyond the call of duty trying to figure out how to modify mortgage loans and I just want to thank you. It is amazing what you are doing.

MS. TAYLOR: Having been on the other side of some of the remarks that is high praise. Anybody else before we take a quick break. All right. Why don't we take a ten -- come back at like 20 after. That would be great and then we can get going again.

(Whereupon, the above-entitled matter went off the record at 11:12 a.m., and resumed at 11:26 a.m.)

MS. TAYLOR: For the new panel, if people could keep their formal remarks to a minimum because I really would like to have a discussion after this. Bob the floor is yours.

MR. MOONEY: We have here representatives of very successful Alliance for Economic Inclusion coalitions from around the country. As you pointed out, our alliances, we now have more than 1,000 organizations that are members in eleven cities. They have been able to open banking relationships for almost 1,000 individuals.

I think this morning it would be important for us to look at the strategies they used to develop those banking relationships. We believe that the more flowers in the garden that bloom the better. And we have here today a bouquet of success.

So, let me introduce our panel, starting with Mr. Jim Young. He is president and CEO of Citizens Bank and Trust. He is a very active, productive member of our AEI in the Black Belt area. Next to him is Charles Martin. Charles is the CRA officer at M&T Bank in Baltimore and a very active member of our AEI Black Belt area.

Charles is going to address how the AEI coalition of banks in Baltimore are developing jointly a small dollar loan program. So it is a different take on the individual program.

Bruce Gotschall is the executive director of NHS of Chicago and he's not --

there he is. Bruce is going to discuss foreclosure efforts as well as a remarkable loan pool that is funded by local banks to address that issue and how they are addressing vacant housing. Now the reason he is going to talk about that relative to the Alliance for Economic Inclusion is that most of our alliances across the country are participating in foreclosure prevention efforts within their community very actively. And for Bruce's program, the FDIC is providing information as to how that qualifies for CRA credit and the importance of foreclosure prevention relative to the bank's entire program.

Mary Dupont is with us. We are delighted to have Mary. Mary has long been a leader of community development for the State of Delaware and she will overview their EITC campaign. Remarkably, she has unrolled that across 22 locations in the State of Delaware and as an innovative strategy here because it includes the provision of cash cards to participants and for the refunds.

And finally, last but not least is Dora Brown, who is Senior Vice President of the International Bank of Commerce. Dora is going to discuss a very successful -- Texas has a robust Alliance for Economic Inclusion -- a very successful bank school partnership to reach not only consumers but underserved families as well.

I think we will allow for about five minutes each and that will give us time for questions and so I think Dora, let's start.

MS. BROWN: I really want to get to this program. First, thank you for allowing me to be here because I could be at home with 73 degree weather and not a -2 but it is a pleasure to be here. I'll get right to it. We will be talking about a school and how we take part in the schools. One of the ways is for over 12 years now we have been involved in the schools. There is this Sam Houston

Elementary, and you will see the kids at a PTA meeting and talked to the parents about PTA and then our employees become the babysitters so that the people can attend the PTA meetings and we talk to them about being able to obtain credit and loans and checking accounts and savings. This school is very unique because we have the mayor and the IBC bank president, the young lady is a more -- look at the smile on her face. She is the president of the bank. And she and along with the mayor of the city who have the mayor and commissioners welcome you to the school when you come in when we have programs. Here at this time I was having, I held a conference for several banks to come in. I invited several banks to come in so they could start the same program because I can't do it all. And here you see the tellers, they actually have a bank president, the tellers all the way down to the security guards. And the supervisors on the other side are telling you what a debit and a credit is, how to be a teller and the ins and outs of being a teller. Here you actually see the kids at work. These are the tellers. The math teachers love this program because it teaches the kids how to not only read and write, but they can do the math as far as adding, subtracting and they have to do it quick because as you can see on the other side they got customers waiting. So they got to do it real quick. So the kids do their own ledgers. They add their deposits and everything goes on. As you can see again you see the kids in line and at the back you will see the customers that we have invited or the parents in the community, we have invited to come in. And the other side they are about to close. So, this is something that goes on every day and it is very exciting for the kids. The attendance has increased tremendously. The teachers say the kids want to come to school because they have an obligation. They have a responsibility. So they have to go to work, yes they have to go to work so they don't want to miss school even if they are real sick.

They also have other areas. Not only a bank, they have a Target, a Wal-Mart, a H-E-B grocery store also. They have IRS and the newspaper. And here is the kids, these are the IRS kids. And it is really cute everything that they do. But these are very serious people. Here I am talking to the parents at the PTA meeting and telling them about the program that we are all very excited about and how we are teaching the kids to save.

And then the other businesses that I just talked about. They have the mail as you see up there. This young lady at the bottom, she's one of the Target managers and she was so excited to be accepted there. We also have Channel 5, which is the TV station over and the radio station and the kids make all the announcements every day through the radio station.

This is really a very exciting school. They have a slogan that says "you earn it, we save it." They came with their own slogan for that. This is not a little play school. This is actually a school where the kids learn how to become bankers. And not only do they just teach the kids there, they go back and they teach their parents. They are very successful at this. This is a very low-income area where 90 percent of the kids, or the families rather, are very low-income and don't speak any English. The kids then teach the parents how to speak English.

But we go into the schools, talk to the PTAs and we counsel them. We become counselors to those people and teach them on how to be able to keep a savings account. I could go on and on about this but since you only gave me five minutes. The parents eventually open up accounts and I don't have all the numbers but I will tell you that we go in as I say, we don't just tell them open a free checking account. We actually counsel the parents and tell them what they can and cannot do to be able to save money and to not have any fees and all of that in there because we don't want to get them in any more trouble than they probably already have. But we have found the parents who open checking accounts said that they actually were able to save money instead of just cashing a check and having it at home and have $5 for this and $5 for that and have no accountability of anything. So in that sense, we have had a really good success.

The kids there just love it, like I said. I wish we had been able to show you a video that they have because the kids tell you their own job descriptions of what they are. This time we were not allowed to do that because of Texas problems. But I am very much involved in all the schools. We went to all the high schools. I have the ability to talk to the superintendents. I have a really good rapport with all the superintendents. So we go to the high schools and teach the high school students especially about credit cards, how not to get in trouble with credit cards. I always make the example that my daughter got a $10,000 pre-approved credit car when she was in high school and we got a $1,000. We talked to the kids about try not to get involved with this. Tear those things up right away because you will get in trouble. You go get your degrees and all that, then you want a job. If you have bad credit, you won't be able to get a job, especially not in a financial institution. So we try very hard and talk to them on a one-to-one basis on it.

So, there is a lot of things, IBC is involved. We have throughout corporation, we are involved in a lot of the going into the schools and doing presentations in different areas to talk to the people in the underbanked areas and underserved areas on the things that we could do for them. We have gotten a lot of awards, a lot of free press and everything where IBC is actually going out there, rolling their sleeves up and helping the people.

Before you all leave I would like for you to take, this is different brochures that we have. This is from the school, how they work and other things. Their life skills, how they earn their money and this would kind of show you also.

If anybody has any questions on how to get started and would like to get going on this program, I would love for you to give me a call. I put my number I think everywhere and we would love to get -- my goal was to have all this program in the McAllen schools because our corporate FIO has requested that he would like this program, he is so much into and gives us a lot of support that he would really like this to be in all our markets and we are in over 102 markets. So we've already got started on this so now we are not only going to be in McAllen, Texas, which is a great city to be in, but we are going to be in Austin, McAllen, rather Houston, Oklahoma. So, we are in San Antonio and different areas. So we are really passionate about this program. I guess you saw that. But also we give a lot of free quotes and as people have said, we've got this right here. This is from the -- it came in the magazine and I just condensed it from one of the programs that I did and actually a story that Texas bankers did on us and also the American Bankers Association did another story. It has been all over the newspapers in different areas. I have the brochures on how to get started and then the bank on what our duties are. Thank you very much.

MR. MOONEY: Dora, thank you and IBC and Dora have been very active in the Texas AEI, so we thank you very much and we are going to share your information with other alliances around the country because we want to move into high schools. Mary?

MS. DUPONT: Okay, well good morning everybody. It is a pleasure to be here. I'm another person who is very excited about the work that we are doing in Delaware. By the way I'm not related just in case you thought it was quite a coincidence.

(Laughter.)

MS. DUPONT: I passed these red folders here. You can read the background information me -- my Gateway Community Development Corporation and the Delaware Earned Income Tax Credit campaign which is on the first page here. And in the folder there is a green piece of paper that shows you our statistics from last year. To sum it up, our organization runs a statewide earned income tax credit campaign which is the free-tax preparation bundled with a whole array of financial services. My interest in getting this started was really on the financial service side and what I recognized eight years ago was that the organizations in the country that at that time were most successful at reaching potential IDA customers were those who were involved in this free tax prep. So the whole idea is to use the tax sites as a front end to attract the market and then once they are there to capture the money moment and be able to offer them a whole array of financial services.

The IRS really made our job a lot easier three years ago when they introduced a new strategy to be able to split the refund. So now you can directly deposit your refund into as many as three accounts by using the Form 8888. So before we were simply opening up savings accounts to have a direct deposit in partnership with PNC Bank in Delaware and then once the 8888 came along we can now offer our customers an opportunity to save in more long term type vehicle. So put out an RFP to the banks and I guess I am not using my slides. I will just tell you the story. We put out an RFP asking Delaware banks to create a specific product which would be a CD, six months minimum deposit of $250. Basically we designed a product that would be easy for our customers and appeal it to our customers to get into. And then we also designed a new job for our volunteers because as you know free tax programs are based on volunteer participation. We created the tax coordinator. So we have the tax preparer who does the taxes and the cash coordinator, oh there we go. And we trained our volunteer cash coordinators to talk to our customers about the products we offer. We offer savings accounts -- and this is all in partnership with local banks -- savings accounts, certificates and certificates of deposit. And by the way, we have no bankers on site. We are able to offer the products at all of our tax sites either using -- we started out with an 800 number and now we just do it online. We developed a secure website where we can go up and just open up an account right online. Last year and then we also last started partnership with D2D, Peter's brainchild, to offer savings bonds. So it started getting really complicated. Now we've got savings accounts, CDs, savings bonds, and we also offer free merged credit reports with a score. And this year we are offering a new product which is a convenient cash card. And I'm very excited about that. I'm trying to keep an eye on the time here.

I think rather than describing everything because you are all bankers so you know what this stuff is. I think I should talk about the lessons learned. One is you can open accounts without a banker present. So a lot of programs around the country are limited in terms of using tax sites as a front end because they say that local banks don't have enough support to be able to send somebody out to all of these tax sites to open the accounts. In Delaware we have been able to do it. I'm not a legal person. I'm not a banker. But they figured out how to do it legally in spite of the Patriot Act and all of those other limitations that we hear about all the time.

Number two, the savings accounts were a flop. We've opened up a lot of them and we've had three different banking partners and this is for unbanked taxpayers. We've opened up probably about 1,000 savings accounts over the past eight years and I would say that 90 percent of them were closed or they remained opened with $5 in them. And the big bulk of them were overdrawn. So not only were they closed but people ran into problems by overdrawing and they ended up worse than they started. So I don't like savings accounts. We still offer them because people, some people want them. So we try to provide people with what they want.

The CDs, they have to be an interesting product. Last year I was able to convince one of our banks to reduce the term to three months and the minimum to $50. They decided they didn't want to do that again this year. So we now offer $250 at a minimum term of six months. And we do have some interest in the CDs. It actually conceived from our money menu. This is what everybody gets when they come in. So when they enter, they are given the money menu, we introduce the products. We have decided to label the CDs. We have Christmas CD, vacation CD, back-to-school CD, dream purchase, and debt repair. So we try to suggest these are things that you might want to use the money for later this year. And that really helps people to visualize what you might want to do in six months with $250.

Another lesson learned, everybody wants to know what their credit score is. Everybody knows that there is a problem that follows them around and that prevents them from gaining access to financial services, jobs, all kinds of things in life. Credit scores are what I call your report card for life. And we have done, I only can afford 2,500 a year. We'll do somewhere between 15,000 and 18,000 returns, but I have to pay for these of course because they have the score. So there really is no free credit report. But we have developed a whole program just on credit, a financial education program called the money show and that combines theater and financial education. We do it for high school, college and adults. It is described in our brochure.

Another lesson learned is that -- and this has really been a tough one for me. I've been trying to work with banks for many years. I started out in micro lending and now I've been doing all this consumer stuff. And it seems to me that banks don't really have the infrastructure, although they have the desire. They don't really have the infrastructure, the ability to create the kind of product that our customers need which is un- and underbanked consumers. So I'm really excited because I met up with some guys who used to be with H&R Block. They just started their own company called Advent Financial Services. Their market is my market. They know how to create a product that doesn't overdraw. You can't -- that's the main thing you can't bounce the account. It has direct deposit. It is this cash card. It is described here. We are calling it the convenient cash card and we are piloting it this year. It can receive a direct deposit from the tax return, from payroll, from benefits. If Michael Barr is still in the room, I was jumping up and down because what he was saying is the ultimate financial transactional product that people need, this is it. Plus not only is it ideal for transactions and people cannot fall into the same kind of traps that they will with traditional financial services, it is also going to have a savings pouch and a credit line. So if you are using it for your payroll. I you have an established relationship, you can get a line of credit. You don't need a payday loan. So basically it is the trinity card. It has three in one. It can do everything. So hopefully I'm not being overly optimistic about it but I'm pretty excited because it is what I have been looking for, for a long time.

So I think that is it. I could go on and on and tell you more and more but look at our money menu. You don't have to give it back even though we do ask for them back at our tax sites.

MR. MOONEY: Thank you Mary. Bruce?

MR. GOTSCHALL: Glad to be here. The FDIC has been such a great partner in both brokerage intervention work and loan improved development and so forth and you can see from the title of this slide serving more low-income neighborhoods and actually a few years would have been serving low-income communities on the mend. We will stress because of the foreclosure and vacate properties, it is a whole different situation. I won't spend a lot of time on the background on Neighborhood Housings Services but I have a couple of slides in there. I won't spend a lot of time on there but we have three particular areas. One is foreclosure and prevention work through our lending services which is the loan pool and making loans for a range of activities and then the redevelopment corporation which is a community development corporation, real estate development, on neighborhood housing. The activity of NHS is really neighborhood focused. Foreclosure prevention is what I will focus on today. Homeownership Preservation Initiative which we started in 2003 has significant results but because we didn't keep up with the extreme increase in foreclosures and the negative impact. Just to give you some recent activity and the growth of that activity, this is partly due to the growth of the problem but it is also due to federal money has assisted us to capacity as well as foundations and others have stepped up some. We have a lot more activity, a lot more education, a lot more connections. It is not increasing as rapidly as the connection to the people. Some of that is time. It still takes three to six months just to get through the process of trying to get a saved or corrected mortgage situation, but it is very difficult. On the loan modification front, a lot of discretion there actually. Modifications from our experience, we see only a third of them actually lower the monthly payment. They keep the payment the same or they add principal to the end and we readjust and so it really is a modification in change of terms but it doesn't improve the situation for the borrower. So that we think is why the discretion in mods demonstrates that they are not performing well. But we think they are not performing well because of all of the information is not calculated and the borrower situation is not taken into consideration.

The money announcements which we think are great in terms of the new programs, from our experience, they have not yet reached the borrower level to really create more volume of saves and less mitigation efforts that are sustainable. We could talk about why mods aren't sustainable, what are the issues? Many people have talked about those. These are interpretations of what some of the causes might be. The securities themselves, we think the second one is a great big one and that data that is available to the service or they don't get full, accurate data information. We think help fill that gap and really do in situations where we get cooperation. So there is a number of current situations that are, I think, making it difficult still to move on the modification and sustainable mod.

One kind of disturbing piece of new information in terms of people that we are seeing -- when you look at the total expenses, the average person we are counseling, that is coming to us, is -- 37 percent of their income goes toward expenses. It is just and it is gotten to the point where that is as big or bigger problem than the loan terms and so forth or the original underwriting. We think streamlined mods can help a good portion of the segment. A second tier really needs significant intensive counseling and budget work and also working with significant modifications of the terms of the loan to lower payments. Some current we have talked about before, a critical ingredient is the connection between the counselor and the servicer. BestFit is one tool that we use and other counseling organizations use to connect with loss mitigation people, the services that they have. Get away from the facts as they get to work-based connections which many, many counselor organizations are now using this. We don't yet have as much acceptance from the services as we would like to see. It is something that I think is making some progress.

Moving quickly to neighborhood lending services, which is our licensed mortgage bank that provides lending for a range of leads to close the gap of lending and also combined public money with the private lending source to make deals work that could not work without public subsidies for the range of what we call buy, fix and keep their homes. The borrowers that we serve and have served over the years, you can see the demographics and income and so forth and then ITINS are part of our process also. Low- and moderate-income have a significant portion of that. Over the last six years, five or six years, we've had loan pools have generated about 150 million in loans and over time you can see the new, developing a new loan pool currently right now. 150 million, a new piece of it is the third bullet, the loss reserve. Although our loans have performed very well over the last five or six years, in order to get our investors comfortable, we have set a premium, the loans to the lenders and some of that premium goes toward the reserve and then the MacArthur Foundation has stepped up to help the loss reserve --

MR. FISH: Who are your investors?

MR. GOTSCHALL: We've got 20 and I've a slide here that shows those, currently who we have. And just as composition and product mix, when you look at refinance, purchase and home improvement, 2003-2006 you see 12 percent of our lending rights for our re-fis. In 2007 it was 53 projecting going forward. Actually we see a very slight decline in refinances over the years but this is as we project, what we've done and what we project going forward to be lending about 45 to 50 million a year for those kinds of improvements or those kinds of loans.

This is just a slide that we use with our potential investors describing why it is important to invest to the low- and moderate-income borrowers, the geographies that you had to get to, investment that couldn't be done without this kind of partnership from public funds.

Investors here, we have about 20 investors. We have two other pools in the past and many repeats and a few new, still in progress. During this month we will be finalizing and closing at the end of month.

MR. FISH: So they are all banks? You don't have any non-bank?

MR. GOTSCHALL: No.

MR. FISH: And you don't have any financial -- you don't have check cashing companies? You don't have --

MR. GOTSCHALL: As investors?

MR. FISH: As investors.

MR. GOTSCHALL: No, no.

MR. FISH: Payday lenders, you have no payday lenders as investors?

MR. GOTSCHALL: No. We've historically worked with what we call conventional lenders.

MR. FISH: And why do you think that is that banks are your investors?

MR. GOTSCHALL: Well because historically Neighborhood Housing Services has been a partner with existing financial institutions, I think their focus on the communities plus I think CRA is a benefit that is something that is worthwhile. We did actually have long discussions with Goldman and Morgan Stanley this year but we haven't gotten them yet. But eventually I think we will.

CHAIRMAN BAIR: They are banks now.

MR. GOTSCHALL: So that is the lending front. Our redevelopment corporation, which is Neighborhood Housing Services --

particularly what I wanted to focus on today was our NeighborHomes activity with buying vacant buildings and reselling those properties in targeted neighborhoods. Just as an example, this happened to be two years ago we did work. There was a block that had six vacant properties. They were actually FHA at that time. These properties we purchased and rehabbed with some city assistance, but also privately financed in terms of the sale of the properties at the end. Of course the current purchase/rehab/resale market and issues are significant. The market -- and we all know the market and credit -- the overall sales and all of these are very, very difficult today in terms of taking a building, buying it, fixing it and selling it to new owners. So the ideas of rent to single families, lease-to-purchase options, those things that are things that need to be considered on how those can add resources to work on the problem. I think that reality, different from a number of years ago, used to be at the foreclosure sale there would be some investors bought the loan out of the foreclosure sale. Now almost nobody; 97 percent of the properties go to the lender with no investors paying off the mortgage as there was before. Of course huge inventories, some REO lenders, you know, the attitude of give me an offer or what can I do? Give me an idea of a neighborhood in terms of the straight on the market, the third bullet point, and this was a neighborhood which interestingly is in the neighborhood President Obama use to organize outside of Chicago. This is 47 listed at under $30,000 and been on the market 157 days. There were none in 2005 and 2006 and ten properties listed on the listing service for under $15,000. So the market is just flooded with properties. Putting a presentation without a map. This is map over a three year period and the neighborhood in Chicago. You can see if you look on one of those blocks that we had these properties that were in foreclosure -- the negative impact that it has on that geography. So just to summarize the whole situation and NHS over the last number of years has done 50 to 100 properties a year in terms of purchase/rehab/resale in our targeted neighborhoods. We are working with the city with the neighborhood strategy program, the federal government's funds for vacant building rehab, resale and rental that we hope can close the gap of appraisal and market with the total costs of rehab and so acquisition prices are coming down for REO and other kinds of things but the rehab process is still high and the markets are soft. So, that's kind of the situation as we see it today and the range of things that we are working to do to -- I guess one of the words is we are trying to include people but we are also trying to sustain people in the situation. Those are the things we are about. Thank you.

MR. MOONEY: Bruce, thank you.

The FDIC is working with the Alliance for Economic Inclusion to get its bank members to include the program. They were anyway because of you. Charles?

MR. MARTIN: How are you doing. Good morning everybody. I know we are coming up on lunch. I promise to go quick, okay. You guys have a pretty nice dining room. I would like to thank Chairman Bair and also thank Bob Mooney and Barry Wings for guiding us and the FDIC in this effort. Thanks to the participating banks, the foundations and the not-for-profit community in Baltimore. This has truly been a collaborative effort in Baltimore where we have all come together to try to develop a product in which we combat some of the predatory or payday lending that is going on.

What I think I would like to do is go right to the history slide here because a lot of the information you have heard before. Again, we began our campaign in probably

2007. We started off with over 40 different members. We tried to break it off into different committees and you heard a lot this morning about data collection and research and so forth. One of our committees was actually a research and data collection committee. It was funded by one of the foundations. The work was actually done by one of the not-for-profits in Baltimore. It was under the on-the-ground footwork. People standing out in front of check cashers trying to figure out why do you use this check casher and why do you use this particular check casher as opposed to the one a block away from here and why don't you use banks for this particular purpose? So we gathered that information and as a result of some of that, we decided we are going to focus on certain target areas in Baltimore where this is pretty prevalent and come up with a small dollar loan program. The loan model -- and this is similar to what you heard this morning --there is an application process. The loan ranges from $300 to $1,000. We figured it would be repaid over 12 months. The APR here is actually wrong. I think got excited and put an extra one in there. That should really be 7.99 and not 17.99, okay. We do have a savings component added to this so that as people repay their loan they actually get -- a portion of their payment gets deposited to a savings account. We are coming up with a match strategy so that we match one for one in terms of the dollars that the people save. MR. FISH: So where does that match come from?

MR. MARTIN: We are debating that now whether we are going to get that from the foundation for banks or just where that match will come from. That is still an item to be worked out and I actually have a slide. The last slide will talk about things that we are still going through.

Again, when I say we put banks together to do this, banks are cautious. So we put a bunch of cautious banks together.

Financial education, there is a financial education component to this. We believe that financial education is definitely a key component to people understanding why it is important to save. But also when you are doing things with payday lending, you also have to change the mind set of the person in terms of paying on a monthly basis as opposed to paying every time I get my paycheck. So a little bit of education has to go on that.

Again, talk about foundation support. We are actually approaching foundations for loan loss reserves. They were instrumental in doing focus groups for us and doing surveys in terms of doing check cashing surveys and also surveys in terms of what banks in the area had to offer as it relates to these types of programs. They were instrumental in marketing. One thing we recognize is that if we do come up with a program, a workable program, it has to be advertised. People have to know about it in order to understand how to utilize it and they have been instrumental in doing that, grants for payroll and also grants for the loan pool.

Our non-profit support partner, we chose NHS of Baltimore because we recognize that, as a group of banks, we probably would never get this done by ourselves. We needed a non-profit partner that we could all work with and who we all were currently working with that could actually make this product work for us. Again, NHS, great name of Baltimore, great name in many other cities -- the charter member of NeighborWorks, certified CDFI -- they are centrally located and that is important because people have got to be able to get there. Convenience is one of the reasons people use check cashers. They are on every corner. They are very, very convenient and everybody knows where they are. And the people in the check cashing operation know them. So NHS is similar to this. They service the population that we are trying to reach. They are centrally located, easy to get to. Parking is obviously an issue because it is in a city and that is one of the things we have got to work out. They have got name recognition and they have a history of community outreach. And the other thing we noticed when we got in there is they have a lending platform that really makes this work for all of us. Because of the things that they do on the loan side, the platform that they have will make this product work for us.

Current financial partners -- and these partners have committed time effort and money to this particular project -- again it is not just banks up here. It is also credit unions that are also joining in this effort to make this thing work.

This is the flow chart and if you would like you can't see it this far back, but in terms of how this process works. A borrower comes in, what happens, how the application flows. Who does what in order for the person to get the money because we are trying to make this convenient, efficient and quick in terms of making it happen.

Some issues to be resolved? Many of the banks and credit unions that are contributing to this effort are doing it through contributions which reduces the cost to the loan pool and not necessarily to zero but it reduces the cost. So we are still in discussions about a more affordable interest rate and how do we make that work. Because the interest earned off of the loans will go back into the pool to help fund the programs. So we can't make it too low but then again we can't make it too high. Maximum savings amount that qualifies for the match -- we got the issue of someone taking out a loan and then depositing the money in there and then looking for a huge match which would make us run out of matching dollars quickly. So we got that issue in terms of how we go about that. Loan repayment -- monthly versus biweekly. That depends on how the people get paid and some other issues that are in there. Limit on the number of loans a borrower can take? We are looking at limiting the maximum amount that you can have out there at any one time. Bank accounts set up because all the banks are participating and different banks take different IDs in terms of opening accounts. We are trying to figure out a way that could work so all the banks benefit from setting up the accounts.

The incentives. You heard a lot of talk about completing the educational program. We recognize that there has to be an incentive there for a person to complete that educational program. Just how do we go about delivering that, whether that is in the beginning, the end or where that goes? And also the question of processing a cash payment -- NHS is not set up to accept cash payments. How do we accept someone who maybe doesn't have a checking account yet and does need to make a payment on their loan? How could we process that? Okay.

MR. FISH: How many loans have you made?

MR. MARTIN: We are still in the process of getting set up. So to date we have not made any.

MR. MOONEY: It is my pleasure and honor to introduce Mr. Jim Young who is the president and CEO of Citizens Bank and Jim if you could just update us on what's going on in the Black Belt Area of Alabama and elsewhere.

MR. YOUNG: I am very leery as well because I guess I'm the last person before lunch. It is good to be back in the city. Two weeks ago I promised myself and my wife I wouldn't be here again until the cherries blossomed or 70 degrees, whichever came first, but I'm happy to be back here.

My bank is Citizens Trust Bank in

Atlanta, Georgia. It was founded in 1921 with people with amazing foresight. It was founded to serve the underserved back in 1921 and they were obviously very proficient in what they were doing. The bank has survived a lot of turmoil, including the Great Depression, World War Two, social upheaval and a lot of other things that I'm sure people predicted the demise of the bank the day after it was started. But it had been there stock-in-trade. We have 10 branch locations in a multi-state environment. I became president in 1998 as a result of a merger and we acquired since a failed savings and loan as well as an ongoing institution which was a thrift in Birmingham, Alabama that had been founded by the well known A. G. Gaston. Part of what A. G. Gaston had built including a thrift in Birmingham to provide housing, he also opened a branch very near his hometown in Utah, Alabama. I don't know how many people were living there then. There are only 1,800 there now. We had a branch in Utah, right in the heart of the Black Belt of this country, the poorest of this country. We had options, obviously when you make that kind of acquisition to be more efficient you eliminate those branches that are not profitable. You do not have the critical mass. You do not have the potential to ever be profitable for you. For us, because of our founding, we decided that was not the case. We would keep that branch open even across some modest amount. We market products and services through them. The majority of the people there are African-American and poverty stricken. So we felt it very important to keep that branch there even if it were not the highest yielding branch that we had in our network.

We got involved and always had an interest in helping those who were underserved. My bank has an outstanding CRA rating and those of you who think that would assume that a minority bank would. Believe me, it is very, very difficult these days to get an outstanding CRA rating. I don't care what your heritage is or where your branches are located. We are very proud and take it very seriously. From the things we do everyday, I don't have an income with slides and income with any additional pieces. I wanted to be able to talk to you directly about what we do. I did not want to send my CRA person. I did not want to send my marketing person. I did not want to send my public relations person. The reason we are doing a small dollar loan program is because it is important to me. It is important to me because we were asked to consider being one of the banks that would develop a small dollar loan program. We were happy to try to do so. We started and the thing that struck me about this thing and because our involvement was that we have a branch in Columbus, Georgia, which is the base for Fort Benning, Georgia.

And there was discussion from the Department of Army that their soldiers, they felt had become security risks and could not be assigned to certain tasks by larger numbers simply because they had fallen prey to payday lenders. And the fact that their credit was so weak that they had to utilize it that it eliminated what they could do in the service in the name of national security. And so we felt that if we could offer a program where they did not have to go to payday lending and find themselves in a spiral, where the more they paid, the more they owed, that we could help eliminate that. Well we were a bit naive about penetrating, I guess, the fort. It was very difficult to get our product. We had advertising on radio in Columbus, Georgia. We had gone to the base and hoped we could get in, in order to market that product. It was a small dollar loan product up to $1,500. There was an element of savings there. We could not. We did about two loans. The program had major benefits if we looked at our market. We also recognized that there were very few, if any, and I didn't find any and I don't know today where you can walk into a bank, particularly a major bank, walk into a bank and say I'd like to borrow $1,500. You can't do it. It is -- and I understand why. They are simply not interested in. Before the ink is dry on the paperwork, they have lost money. You simply can't, if you are going to produce the kind of document that consumer compliance regulators would expect you to have, you have lost money.

And so it is a very, very tough thing to do. But nevertheless, I look at this as an opportunity. Years ago when I started in banking, I was assigned to the financing and leasing companies division at the Chase Manhattan Bank, my first assignment out of training. And I had companies like Household and those kinds of large finance companies. We were simply providing them the money in bulk that they loaned out in smaller pieces. And I knew that there was a possibility to do this, but it was dependent upon volume. And so we were determined then that we would continue and we opened what we called the community relief loan. I had to refrain from calling it a main street relief loan. That was in line to let the American consumer know that somebody cared at least in our market that no matter what was happening in Congress, no matter what was happening, that we were going to use, whether we got taught or not, what resources we had to touch those. A lot of people who had suffered foreclosure got on a slippery slope simply because at some point in their time they only needed enough for one mortgage payment to bridge the time until they could get something else. But nobody was making those kinds of loans. They would tell you to go find your friends and family.

I then further decided that it would give me an opportunity to tap the enthusiasms of younger people in my organization. So I stripped the program down and asked them to create this program. How would they respond to it? What would they like to see and what did they think was fair? How should we approach it? So they spent the summer of last year developing a program. So we have in fact implemented the program. A $1,500 minimum loan, and I have signed for more than that on occasion for those who have a further need. It is a one-year maturity loan, requiring monthly payments that is obviously a lot less than if you have to pay back the full balance of a loan every time you get paid at a significant interest rate. No annual fee. The debt ratio cannot be higher than 50 percent. I know there is some leniency there considering debt ratio. We looked for cross selling opportunities in savings accounts, CDs, free check. We do require an automatic debit. We do not require direct deposit. They are still free to pick any bank they want. We simply want to have the direct deposit. We advertise heavily on this program, digging the program file financially more and more in the hole but we knew we had to advertise to get the message out. And we began to be bombarded with applications. We wanted to make it a simple process in which a decision could be made in one day. And we have been successful in doing that. We have had 400 applications. We have accrued 90 loans and this is since November when we finally rolled the program out in all of our markets. And yes Utah is an active participant in this program as well. So we have rolled this program out and we have some 15 pending applications and it continues to grow. Are we making money on it? No. What do we get from it? It has been a training vehicle for some of my people who thought that their role in the bank was simply to take deposits and cash checking. We've been able to tap that and to give them an opportunity and actually create a product. So they have a vested interest in the product and a vested interest in selling the product. I have not had much success in collaborating with non-profits and things of that sort. It simply has not been a consistency there.

Over the years we have taught the Money Smart program. We were one of the few that began teaching the Money Smart program. Non-profits and churches of faith-based institutions would invite us in to teach and it was not consistent. We set up school banks and that was not consistent. Change and year-to-year, it was not consistent.

So we felt whatever activity we were going to do in this area, we were going to need to control and do ourselves. We would have to use our money and hopefully we would draw other people. And so to date, we have this program. It has been very, very helpful to us. It has been very, very helpful to the people we serve. We get an opportunity to sit and talk with them. We had a second chance program and I didn't want to be a second chance program. I wanted the customer base to feel that any time they walked into any one of our locations, if they happened to have had a bad encounter with check systems, even had a second chance with a bank, you have a human being to talk to, to explain your situation. In many cases I was the final arbiter on whether somebody would get another chance. The reason because I was not a large bank to do that. And part of what we sell that major banks cannot sell, everybody has access to all of my people in the bank including me. It keeps me there longer hours but there is not someone in Atlanta or in Columbus or in Birmingham who says they want to speak to the president of the bank or the chief operating officer of the bank and did not have an opportunity to speak with him and make their case. The way banking was perhaps the way banking ought to be. So we've been successful in that. To take 500 applications and comply in consumer compliance, it takes a lot of effort and it takes an energy that you cannot pay for. You have to have a stronger commitment. And so ours is a little different. We think we had the responsibility to do it and not wait until all the stars aligned in the sky before we take action. So it is working well for us. Now I have not done the equation to see what critical mass I have to get to break even. And I know that's an anathema to a lot of people who manage and run banks but that is the way I run this program. I don't want that focus to be there. You know the total of outstanding is probably $100,000 to $120,000. We can run this program and we certainly don't expect to lose any part of that and, since November, the economy started -- we have not had one default in this program. We have done every loan, but we have not had one default. But someone who was going to -- we've outlawed payday lenders in

Georgia. They have been replaced by title lending. And so people begin to realize that what they are giving up when they do that. Now it is not just the interest rates that you pay. Now you are subject to lose the equity in your automobile which is significantly more than the interest rates and the value in those automobiles simply because you cannot make the payment in two weeks. So this is set up just like any other normal loan. But the banking system has gotten to the point that even some community banks is simply not attractive to make a loan at the levels at which you ask. And perhaps that is why when you hear from people who are in this program and asked to contribute and asked to create small dollar loan program, why they have had difficulty launching them and getting them off the ground. Because somewhere, and I don't know where, if it is the CFO or the CEOs and say we can't make money, I'm sorry. With me, it is a different case. I believe that we will ultimately win. And you know, like a lot of people I have relatives, maybe distant relatives who would benefit from such a program. Either the bank lends them the money or I lend them.

They must be gainfully employed. They come to us with six months of evidence of having been employed. We like to see six months of consistent employment. There are a lot of people who are employed and found themselves just short of a mortgage payment, just short of an auto payment. But if that continues, it creates a problem. But if they can nip that in the bud, it solves the problem. At least that is an improvement for us.

I'm going to take one minute and mention one other thing I feel passionately about and am trying to promote. And that is this thing of financial literacy. Whether the FDIC Money Smart, Operation Hope and all of these things are going on, and there is a requirement for, in many cases when we were doing the mortgage business, first-time home buyers, we would have a first-time home buyers training program. We would work them in Fannie Mae and we would come and give those lessons. It occurred to me as we began the talk about the bailout, TARP, a trillion dollars or 800 billion dollars and I've looked at it and looked at No Child Left Behind for the last four years and always wondered that if we can teach phys ed and require phys ed in our public schools. If we can teach home economics and I'm not -- if we can do those things, why is it we cannot require as part of the curriculum that our young children learn about financial literacy rather than hoping than a non-profit will pick it up and someone else will do it for a fee. Why not allocate part of that money or someone with a voice that can be heard, why not take a piece of this money that they are debating now over on the Hill and allocate to ensure that when our kids come out of school, if they don't come out with credit card debt as someone down here mentioned, they come out with a savings account with money in it. They come out with an understanding of how the mortgage business works. They come out with an understanding of how the stock market works. They come out with an understanding of having been in an investment club and perhaps come out with a stake in life at 18 years old. We are turning out people who, it is cards, and we've all suffered and accepted blame for cards and the mortgage problem. Everybody with every bank was not at fault. There were people who knew they were buying more than they could afford. They couldn't believe it themselves but if it was being sold it had to be legal so they were going to take it without any concern about the implications for them.

So having done what we do, we will continue to do, but there are many of you who have a voice on the Hill. Ask them to modify the curriculum so that our children don't come out with a lack of understanding. They come out with a full understanding and a stake in America before they even go to college. It is a simple thing in my mind. So I thank you for the opportunity. Mr. Mooney knows how to reach me and my program. I'm a fairly simplistic guy. I don't like getting bogged down with a lot of collaborative things that is going to require we meet every third Thursday and we'll come up with something when you have the full capacity to do something. I really think we all ought to be the change we'd like to see.

MS. TAYLOR: Thank you. Does anybody have any questions comments?

MS. WRIGHT: Amen.

MS. TAYLOR: Amen, yes.

CHAIRMAN BAIR: I unfortunately have some meetings up on the Hill and another agency this afternoon. I couldn't control the scheduling. I may not be able to be back for the discussion but a couple of areas where I really would like some input from the group. Apropos the excellent presentations we have had this morning is that I think we are having increasing success in our small dollar loan pilots and whether it is time to take that to the next step and see if we could provide further incentives for banks to start offering those types of products more broadly.

I am intrigued by Michael Barr's notion of a safe transaction account, whether in combination with setting goals for reducing the unbanked or underbanked population that there should be an affirmative requirement that banks provide that type of account. Maybe they do it already. It would be interesting to find out. Maybe that would be the next step. How many banks do it already and what the costs and success are? So those are two areas. And then also this check system issue. I've heard this a lot. It came up again on the survey data. I do not understand why. Certainly it is prudent to run customers through checks and maybe to exclude them from a conventional checking account but why not a savings account? It seems to me -- why shouldn't everybody be getting a savings account. So maybe there are other barriers there or not and maybe that's another area where regulators should step in and say affirmatively yes, you can train for a checking account but not for a savings account. So I very much would like input on those specific issues and obviously anything you would like to recommend to us. We are getting a good additional baseline with our small dollar pilot, as well as this wonderful survey that Marty and Barbara have spearheaded, I think to make some policy judgments now that could lead to more definitive regulatory steps. So, I hope I can get back this afternoon but, if not, I look forward to getting a report about what your reviews are. We'll be talking over lunch too.

Thank you.

MS. TAYLOR: Anybody else?

MS. DUPONT: The one thing that I forgot to mention about this card is that it's a bank product. It's currently, the bank that's offering it is Bancorp. But any bank here could offer it. So if we'd like to have discussions, I could connect you. So it's really, the card is a process just like these, and MasterCard is a process. It's just designed for this market so they don't fall into some of the traps. So it is a financial product, and it is FDIC-insured.

MS. TAYLOR: Okay. We have lunch upstairs on the 7th floor. And if everybody could be back in their seats by 1:30 so that we can have some good discussion this afternoon, that would be great. And panelists, thank you very much.

(Whereupon, the above-entitled matter went off the record at 12:32 p.m., and resumed at 1:44 p.m.)

MR. MOONEY: Okay. What we wanted to do was to follow up on the Chairman's request before she left, and also to get reactions to what we heard earlier.

MS. MILLER: I heard three things. How can we increase success in the small dollar loan programs? Are there any other incentives that we could perhaps provide? And the Chairman indicated that she was sort of intrigued by this idea of having an affirmative requirement for some sort of limited access account or account being targeted to one bank. And then what are the next steps that we need to take? Where do we need to take the empirical information and findings of small dollar loan pilots and the unbanked survey, both the one we've got in front of us, and then the one forthcoming on the consumers? Those were the three things I heard.

MS. FUCHS: Just a quick suggestion on the survey. I mean I just remembered that the table about the perceptions of the bankers, and their perceptions about why they can't serve this community had to do with profitability, and regulatory barriers, and fraud, and high cost of customer acquisition. When I used survey data like that in other contexts, it's a really useful thing to do to match up perceptions with other indicators of the empirical circumstances of the reality. So it would be good to really understand whether or not there really are problems of profitability and problems, regulatory barriers, and that are these real things that don't fit in with the business plans that banks have, and if they are, then you're dealing with a different problem in terms of the kinds of solutions you'd want to put out there then if it's simply perceptions, and in fact, they can make a profit, and there really aren't great regulatory barriers. So you know, and on and on and on. So I think to the extent that you can provide some empirical or objective indicators out there that you rank alongside the perceptions, you'll actually have a better capacity to make suggestions along the lines of what kinds of incentives and what kinds of regulations do we have to really put into place, and whether banks have to change, or are we asking banks to change their business plans essentially as it relates to profit for this constituency.

MS. TAYLOR: And can we do that?

MS. FUCHS: And can we do that? Right. I mean, that's a decision that has to be made.

MS. MILLER: In terms of the perceptions, of course the case study banks are going to sort of debunk some of those perceptions, and that was a part of the reason why there was the case study banks in there, and why we have these presentations here today. You know, some objections are going to be perceptions, and then also some banks just aren't really going to want to pursue this line of business. But that's the whole idea of having case study banks and presentations of this sort.

MR. HENDERSON: Thank you. First, Madam Chair, I have a question which really I suspect goes to you and to the broader committee, but it's based on the conversations we had this morning. Let me say I found this to be a very enlightened set of presentations, very informative. And as someone who is not either a banker or directly involved in the regulation of banks, but who has an interest in the impact of these programs and policies on the constituencies that we represent, I thought that this was an extremely helpful set of presentations. I think the survey that the FDIC has undertaken of the unbanked or the underbanked, and as my friend, Larry Fish, refers to them, the alternatively-banked - he doesn't see that as being either unbanked or underbanked - but I thought that was very informative, and obviously there is more information that needs to be gathered. I think your pilot project with the Census Bureau is really quite innovative. You should be commended for it. We have lots of questions that we could delve into, but there's a larger issue, which I think looms over this conversation, and I wanted to get your advice, Madam Chair. And that is the question of the role of the Advisory Committee in helping to develop recommendations that actually impact policy that is now being developed right here in Washington. I mean, I don't have to state the obvious. We are in the greatest financial crisis facing the country in the last 50 years. But in that crisis, there are also seeds of opportunity. Virtually a trillion dollars in income is being spent in one form or another to completely restructure a financial system as we know it today. And there are opportunities within that restructuring to make significant gains, I believe, on some of the issues which have been the subject of this advisory committee and its role. The question is whether the kinds of information that is being generated has been put in some sort of broader context so that we can inform the appropriate policymakers on Capitol Hill, the banking and finance committees of the Treasury Department, and those in the White House who are actually shaping these policies, and I fear that, if we take too long to develop a more comprehensive assessment of recommendations, that we would make -- we'll miss that opportunity. And so the issue is whether the kinds of things that are being discussed here are assembled in a way that become digestible for that broader body, and whether there is any intent to try to use this information to affect the policy decisions that are being made right now.

MS. TAYLOR: I think the short answer to that is absolutely yes, and Marty I'm just going to say a few words, and then maybe you can speak for the Chairman, chairwoman, as to what is actually being done with the information we get from these sessions. The subject matter of each of the sessions I think has been thought through a lot, and it's not an accident that this session is happening right, now because it really goes to the crux of some of the problems that have been inherent in the system which have sort of trickled, I believe up, and caused some of the problems that we're in today. So I think our role, from my point of view, is to elicit information, discuss among ourselves what we think some of the policy implications of that could be, some of the things that the FDIC could do with that information as far as policy construction goes. And I think we've seen some very good -- heard some really good ideas here, and our job is to figure out what it is that the FDIC and regulators could do to promote some of those ideas, and to give the FDIC and the chairwoman and Marty, the co-chair or vice chair the ammunition and information that they need to go and advocate those ideas with the current administration and the powers that be, because the chairwoman has been very much involved in all of these discussions. And the more information that she has from groups, such as the people that we've been talking to here, and the benefit of the discussion that we had, which is a very, very diverse group, she is much better, and has a lot more ammunition to go and --

MR. HENDERSON: Can I give specific follow though, because it goes to your point, and not at all to be argumentative. I agree with exactly what you're saying. First of all, we are an advisory committee to the FDIC. So the information that we provide presumably will arm our chair, Sheila, and our vice-chair, Marty, and perhaps prepare them better to advance a broader agenda within the circles in which they function.

Having said that, I question whether, even as the chair and the vice-chair of the FDIC, they have sufficient political power unto themselves to influence the policy at the highest level simply by taking forth our recommendations and putting them forward. My own experience has been that, unless there is an echo chamber created outside of the official body in which you're operating, your ability to have influence on some of these broader policy issues is quite limited. I think Madam Chair has already encountered challenges with respect to her intervention around the home foreclosure issue. She has been admirable in her advocacy. But her voice is a voice in the wilderness, unable to influence the process entirely on her own. And what I'm suggesting is that we represent a much more diverse, and to some degree influential, body as an advisory committee than simply providing recommendations to the FDIC alone. Case in point: I listened this morning to the discussion of the survey that was undertaken. I thought it was tremendous, informative, very helpful. I asked Marty, and Marty can talk with us about it, I asked whether there had been a definitive case made for banking the unbanked. What was missing in the discussion this morning is not the survey, and that wasn't the purpose of that presentation. But it was a broader context in making the case for why federal policy should encourage banking those who are unbanked, or underbanked, or alternatively-banked. Thinking of ways to strengthen the presentation so that your ability to have impact in the appropriate venues where this conversation is taking place can be amplified beyond what the FDIC can do. And I fear that, notwithstanding the wisdom of the recommendations or, you know, the probity or the thoughtfulness of the presentation, there is a limited impact that these recommendations will have if they are voiced exclusively by our chair or vice chair.

MS. TAYLOR: I'm so glad you brought that up.

MR. HENDERSON: Good.

MS. TAYLOR: This committee was formed by the FDIC.

MR. HENDERSON: Yes, absolutely.

MS. TAYLOR: So our duty is to advise and inform the FDIC of what goes on, and what we decide to discuss here. However, what members of this committee do with the information, which is also very public, is entirely outside of the purview of this committee. So if people wanted to individually go and advocate, as I know that many of us are very able to do, this committee has no control over what they might do with that. So I would say --

MR. HENDERSON: I will make one last comment, then I'm done. I appreciate that. Look, we -- I worked as head of a coalition that operates by consensus, and so the nature of that process, as you could imagine, is challenging on many issues. But there would seem to be a consensus on some recommendations that would come off of this advisory body that could have real impact as Congress is debating these issues. Obviously not everybody will reach the level of consensus, nor should we seek to advance a broad set of policies. But I certainly think that a targeted set of recommendations, prepared by a well respected, diverse group like this advisory body, and given voice at a time when the Treasury Department, the White House and the Hill are debating these issues, could have some influence. And so I'll close simply by saying I hope that, as we consider how we can be helpful to the FDIC, that we consider a broad range of options.

MS. TAYLOR: Thank you for that, and I think that's something that we should consider very closely, because it's a really good idea. I'm not sure where it goes --

MR. HENDERSON: I'm not either.

MS. TAYLOR: -- but I think it is a really good idea. Thank you for that. Ron?

MR. GRZYWINSKI: If I may, with all due respect, I would like to say what Wade has said in slightly different terms, if I may. The feeling here, my feeling to be precise, is like there's a revolution going on over there. As the President pointed out yesterday, we had an election, and the people spoke. And there is a revolution that is getting started. It feels like we're here having tea and crumpets while that revolution is getting started. This committee is about economic inclusion, okay? And there is going to be legislation on new regulatory mechanisms that's going to come out of the House or wherever it's going to come out of, okay? Is anybody thinking that any part of that ought to deal with how providers of services to low-income people are part of that legislation, okay? If we have people in treasury saying, you know, 2,000 community banks are going to fail, don't worry too much about it, okay? We're going to make sure that the big banks, the same people who brought us our problems are going to survive and continue, okay? Whereas the capacity to service the people that we're talking about and inclusion rests more with the smaller banks, the community banks, etc. You know, I don't hang out in this town, okay? So I don't really know what goes on here. But the point is --

MS. FUCHS: You're just a country lawyer.

MR. GRZYWINSKI: Pardon?

MS. FUCHS: You're just a country lawyer.

MR. GRZYWINSKI: I'm just a country boy from the South Side of Chicago.

MS. FUCHS: We knew that.

MR. GRZYWINSKI: Born and raised. So it feels like we're just, this is an important moment, okay? These next several months are important times, and it feels like we do have a mandate as a committee, okay, of the FDIC, okay? You know, if most of these small banks are marketing towards your clients of the FDIC, if I was going to lose --

But if I was going to lose a fourth of my market, okay, I might have an opinion about that. So it seems like it's within our mandate, but we're not quite coming to grips with it the way we should at what I think is a historic moment.

MR. McDONALD: I guess I'm more of a direct person. I agree with everything that's been said, and I would like to suggest strongly that the recommendations, or some of the recommendations that we've heard over the last four to six meetings, I mean, we've got a lot of information here over the last four to six times that we've met. And I think it is our duty and responsibility to perhaps look at gathering this information, and coming up with a number of policy decisions that we should ask the chair and the vice-chair of the FDIC to put forth as policy issues for this new administration to consider. I agree with the fact that, first of all, if we are looking at this huge number of unbanked individuals that all of these banks, large and small, are dealing with, if we take a look at the sub-prime market, the sub-prime market is a result of the community not being properly educated on the financial side of this economy. So it does affect the FDIC. It affects the Federal Reserve. It affects the entire economy in which we live in today. So I think it's very, very important for us to look at some of these overriding issues and come out with a few policies that we should suggest. So I said earlier that I'm more direct, and I don't think we should let this opportunity pass us.

MS. TAYLOR: Can I just say something? I totally agree with you, and as the chair of this august group, and a consensus builder, I think it would be really interesting if we could work with the FDIC staff to come up with some recommendations, not just - I think you're absolutely right - not just for the FDIC, which is what we've been doing up until now, things have been happening within the FDIC, but in the greater context. And if we could -- I think we've heard a lot of really good policy ideas here, and I can envision working with the FDIC staff to come up with a letter that we could all sign and send to the appropriate members of Congress and the Treasury and Regulatory Committee. So, and I'm hoping -- I think for the most part we are enough on the same page, and obviously everybody isn't here. And I'd like to have the chair's input also on this, which I think is very important. But I think that's a really good idea.

MS. WRIGHT: I came in a little late, so I may have missed some important context, but having served in government -- how do I say this appropriately?

MS. TAYLOR: Just come out with it.

MS. WRIGHT: There are things, well, when I reported to, when I was Housing Commissioner, I reported to Mayor Guiliani the notion of my own commission coming up with some recommendations that may or may not be on the reservation would not have been appreciated. And so there are some things -- this is an official relationship between us and the FDIC, and there are some things that the FDIC can recommend, but there are also things that would be better recommended by individuals that have a strong point of view. And so there may well be, to be fair to our chair and the folks here at FDIC, I think there may be a line beyond which they are not appropriately to go, and it doesn't mean that we can't go further. But I think we should be respectful of that.

MR. RYAN: I don't know if this is something that the FDIC would be looking to do, but being in this town I sort of sense that, I don't feel the revolution yet. There are a lot of things going on right now in the reshaping of our financial industry, but they're putting out fires, and maybe not necessarily thinking of the consequences of some of the things they're doing. You know, from where I sit in the bank regulatory world, we're consolidating an industry that may result in a much larger swath of unbanked or inadequately banked individuals that's an even more global question. What I would ask is, perhaps as Bob Steel had appeared before this group, that maybe we would be able to have a dialogue to discuss with Treasury or some of the administration, and be able to share some of our thinking. And again, I fully respect that that may not be the function of this group, or what the FDIC is looking to accomplish, but --

MS. TAYLOR: There's this group, and then there are the individuals who are a part of this group, which will do what we see fit.

MR. HENDERSON: Let me say, first of all, Deborah, I completely agree with you. I mean, the nature of consensus is such that anyone can object. And therefore consensus is not achieved, and you can be blocked from doing anything. Certainly nothing I would propose would be done independent of the chair and the vice-chair. They would have to weigh this. They would have to consider it. They would have to determine whether this was appropriate from their perspective, whether they were comfortable with it. Obviously, if we were to make recommendations as an advisory committee, it would reflect on their leadership, and they obviously have to take that into account in determining whether it's appropriate or inappropriate, and to whom, with whom it would be communicated. Certainly as individuals we can all make recommendations regarding policy, and you'll have that kind of impact.

But I guess my point is this. First of all, I think it's a question that they should consider, and I'm proposing that they do so, so that's number one. Number two, anything that is objectionable, I mean, if there is no consensus, there isn't. So we would not do something as the collective body, but I think we would have made a mistake not to discuss it, which is why I wanted to present it here in the context of a conversation. You know, we in the civil rights community, which has obviously a broader interest, we share national concerns, but we are not specialized professionals in the banking world. And yet I am clear that there needs to be an opportunity impact assessment of every expenditure that is being made now, under TARP and under the stimulus plan, that speaks to the concerns that we share in common of the constituencies we represent. When the dust clears, if left to its own devices, I'm convinced that the constituencies we represent will have the short end of the stick on almost every issue where a policy question is placed on the table about who pays, who's responsible for helping dig us out of this mess. And I have, you know, without disparaging any of the leaders who are currently in positions of responsibility, I'm very confident that they share the concern that we share about making certain that the country is righted in an appropriate way. I think the opportunity is too great to ignore, and so again, I'm simply suggesting that perhaps, in an appropriate setting, there be some discussion about the kinds of things that either we can recommend or the chair or the vice chair can recommend on behalf of the FDIC, but we're seeking to amplify our voices, their voices, and so that's really the purpose behind it.

MS. McINERNY: Madam Chair, I don't know if it would be helpful. I don't want to interrupt the discussion, but I was thinking in terms of just the advisory committee charter, and what it says about the goals of the committee and so forth.

MS. TAYLOR: No, I think that would be entirely appropriate, because the topic of this discussion right here is -- it facilitates a discussion on how to amplify and promote, so I think that's very much on point.

MS. McINERNY: Looking at the charter, the charge of this committee is to provide advice and recommendations to the FDIC on initiatives to expand access to banking services by underserved populations -- so advice and recommendations. There's nothing in the charter that says the advice has to be consensus advice. So if the committee members decide that they want to provide some sort of advice on a document, or options, or anything in writing, that's certainly something you could do if the committee were to decide that. And under the charter also, FDIC staff is able to facilitate and provide support in terms of helping you all communicate, and things like that, typing things up, things like that.

MS. TAYLOR: As a start, I think it would be very helpful for FDIC staff to, as I'm sure they're going to do anywise, compile what we've heard today in terms of recommendations and serving the underserved, and maybe fashion it into something that we could all sign and send to the appropriate people on the Hill, for starters, and I'm sure that there are a lot of other ways that we could do this. Do you have anything you want to say?

VICE CHAIRMAN GRUENBERG: Well first, I mean, I don't want to preempt the Chairman, but I don't think I am here. You know, we set up an advisory committee to get ideas from the advisory committee. So the notion that you all would want to make recommendations is not -- so it strikes me what you're suggesting is entirely appropriate and consistent with the charter creating the advisory group. And you know, it's an exceptional group of people with a wide array of backgrounds and expertise that you could bring to the subject, and I don't see why we wouldn't want the group to develop a set of recommendations that you could provide to us, and let us provide to a broader audience, as well. So that's -- I guess the Chairman would agree with that, but I don't want to --

MS. TAYLOR: I'm sure she would.

MR. TUFANO: I think one of the things we've seen in the six or so meetings is that there's no line out there that says, FDIC here, and the rest of the world there. So we've seen, you know, when we talked about mortgages, that some of the problems in the mortgage area were not in FDIC banks, but beyond -- were in payment systems. It's not necessarily just about what happens in banks, but rather what happens in the money center businesses, as well. So as we think about these recommendations, to the extent that we're going to be thinking broadly in terms of affecting policy, I think one can be focused just on the FDIC, but I think that would be a missed opportunity, because if our focus is on the underserved, starting from the consumer's perspective, then you'd want to think across those businesses. So for example, we heard today that when payday lending goes away, title lending pops up. These are all interconnected businesses, and the more that we can give -- to the extent that it's appropriate to give policy advice, which I think it is, then we should try to make sure that we're not parochially, you know, just focused on bank related policy advice. Now whoever hears this advice is free to discard it. But on the other hand, I think that's the appropriate way to think. Think in terms of functions, and then think of the policies with respect to functions. So as an example of that, you might say, we believe that everyone should have access to a low cost, low risk payment system alternative. And that could come through an FDIC bank, or through a credit union, or perhaps through a non-bank entity. But I think if we're making clear what we're trying to achieve, then it might frame some of these policy things better, because we need consistency across policies.

MR. BOSTON: I want to follow up on your point, but first I want to say, if there's a revolution going on, Sheila is at the head of it. We should keep that in mind, in a good way. So I think a lot of things are happening, and a lot of the things that we talked about are being discussed at other places, and we're all proud of her work.

But one of my concerns is that many of the people who are banked today may be unbanked tomorrow. So I think we should also keep in mind about the new unserved or underserved that are about to be created. And so we just cannot think about those we call low-, moderate-income, and think they're the only ones that we should be protecting. We have millions of people who are so-called middle class who are going to be low class or unemployed or whatever you want very quickly, and this will impact the banking community. So when we're thinking about our policies, let's not say it's just for those folks over there. It's for all Americans who are at risk, and today that's millions of Americans. So I just want to keep that in mind.

MR. MOONEY: In response, this discussion seems to be aligned with what the Chairman asked before she left, which was to increase the success of small dollar loans with more incentives. Two, she was intrigued by an affirmative requirement for basic savings and checking accounts. So we are talking about incentives and affirmative obligations and requirements that may very well be tied to federal programs. And I think staff could research. You're right. There's not a plethora of recommendations out there concerning unbanked programs relative to the federal programs we're seeing now, but there are some that cross my desk. And even if we collate those, and present them for consideration, that would be useful.

MS. TAYLOR: I think it's bigger than that. I think it's, you know, the big issue is underserved populations, and how do you serve them in financial services, in the financial services arena, which brings in everything from protection against fraud, to education, to the actual services that are offered, to -- and that's fraud from within and without the system, too. The thing that we were discussing before is that, you know, there are some victims, but some of these victims weren't really victims. They were victims of their own egregious actions trying to take advantage of a system which finally stopped when mortgages or housing prices stopped going up. So I think that we can start with the recommendation regarding underserved populations, or to be underserved populations and their interaction within the financial services sector, and then what financial institutions can do to alleviate that, and what the regulators can do to assist the financial institutions in alleviating some of those problems, and bringing services that people can actually use based on real data and information. And one of the things that we were discussing before, it is very interesting to hear what some people had to say about savings accounts. I mean, savings accounts have been sort of the holy grail. Everybody should have a savings account. Well, maybe, maybe not. Maybe it works, and maybe it doesn't. So you know, I think that we've got some more research to do there, too, or a recommendation would be to research that some more.

MR. McDONALD: I would like to just

expand on what Kelvin said at that end. With an effort to perhaps enhance the thought processing, gathering the information, Kelvin's statement basically made reference to, that is not only the unbanked/underbanked to that -- tomorrow, it's going to be middle America, because they are unemployed. So when I think in terms of just that statement alone, it brings me back to a comment that I made earlier, and Jim Young also made the comment, and we had no discussion on this. As a matter of fact, he wasn't even here when I made the comment about how do we get it into the education system. And from a broad point of view, the sub-prime market is a result, and that crossed all lines, middle America, etc., because of a lack of education on the issue of finance. Jim Young made the comment that, if we taught home economics or whatever in the school system, why not have this to be part of the curriculum? We've had individuals to lose money in the investment community where they thought they were part of this whole billion dollar investment company, and it was because perhaps of a lack of education in some sense. So this goes across the entire spectrum. So my point is, from a broader perspective, and from a policy point of view, looking at the issues that we've been faced with just by talking about the underbanked and the unbanked, this issue is much broader. It goes to the whole community. So from a policy point of view, perhaps we should talk in terms, or look at the possibility of having something put in the education system, which is beyond the FDIC. And when we talk about -- that perhaps recommendations on how the FDIC could encourage banks to help people who are not banked to be banked, I think it's a much broader issue. So I just wanted to re-emphasize the fact that we're talking about broader policies, and I wanted to at least give that as an example as to perhaps how far our thought process should go in developing some of the recommendations, some of the observations, because the staff in the last five or six meetings, and Bob, the number of people you had to present. It's a wealth of information, a wealth of information and there's some common denominators, and one common denominator is the educational aspect.

MR. BECK: If I could comment on that, since I represent that financial education community. I was very struck by a couple of things this morning. First of all, I applaud the banks that presented. And if you look at the financial education programs that are out there, there's a really wide range of quality. And what I appreciated about the banks today was that they were volunteering their time to enhance the experience in the classroom in supporting a teacher. That is a long way from passing out a brochure. So I think you saw some best-in-class today. But I want to throw in a couple of cautions. And this is just from our world.

It's a lot more than just a class. There are very good high school programs that are available from the non-profit community, including the program from the FDIC. There's some high quality things out there that schools can adopt and are adopting and without the banks and the credit unions' support, that wouldn't happen. There's an interesting couple of statistics for you. There's roughly 40 states that have some sort of financial education mandate. There's less than ten that do anything about it as far as trying to measure the quality. The one thing they all have in common is they have no funding. So, recommendations from my world, including the President's Counsel on Financial Literary, is to create a mandate for schools to make sure that this is included, because it can be included in a lot of different categories. But the caution I think we have to throw out in pursuing this, which is I think a great idea, is that one class is not an inoculation.

And just because you've finished that class doesn't mean you're good to go for the rest of your life. So it's a foundation that I happen to think is critical. So I strongly support it. But it's an ongoing process if we really want people to avoid having the problems we're seeing. So one class won't do it. But a continuous process from the financial community, from the FDIC, from a lot of different points, will help keep people out of trouble. This is not something that stops when you finish 12th grade. So just a word of caution that I wish it was that easy that we could just send somebody out of high school saying, you're good. The rules will never change during your economic life. So don't worry about it.

MS. TAYLOR: Ester?

MR. FUCHS: Yes, I just wanted to go back to Alden's general point. I know he used education as an example. I just think that the whole idea also that this is a particularly critical moment in which we can have an impact is very important. And what I would like to see happen in this effort to come up with proposals is essentially a linkage between the issues that we've been discussing over the last year -- of the underserved community -- and the ones that are now being dealt with in the broader financial crisis out there. This is an opportunity to put this problem and this issue sort of center stage. It's not really peripheral. It's just -- it now can be viewed as symptomatic. You know, as you pointed out, there's going to be a lot more people underserved, a lot more people with this problem that usually is viewed as a sideline, or a sidebar, or it's just a sort of special group of people who are interested in this population. It's not a sidebar anymore. It's really the main event. And a lot of the proposals that have been discussed in this committee really relate to the larger issues of what will regulatory reform look like, what kinds of incentives will we put on the table over the long term for banks and other financial institutions to change their behavior at the neighborhood level? So I would like to see this structured linking, this question of the what do we do for this population, with how this is part of the larger fix to the financial crisis that we're in. And I think that we would have better traction that way, and of course that's, insofar as Sheila can use this, I think, as part of what her agenda has been coming out of the FDIC, I think everybody understands that the FDIC is not going to be the implementer of all of the solutions to the current problem. But it is, she has been, and the FDIC has been a very important voice now, and I think we can help reinforce the credibility that they already have in that debate by creating this kind of linkage, and not sort of staying as a sidebar to the conversation.

MS. WARREN: Thank you. I apologize for having to miss the whole morning. I had to testify, and I was assured it would be very short. It was not. But this is important, and that's why I wanted to come back and be here, and especially for this meeting. I just want to make one point as we start drawing this together, and that is, we talk about what are, in effect, the discreet recommendations. They may be open-ended when we talk about education, but we're talking about a series of fairly discreet recommendations. I think we, because you rarely get this many good people together, really need to spend a minute on the notion that there's a systemic problem here. I think back to, I think it was our first meeting, and PROSPER presented to us. Do you remember? And the whole notion of maybe there would be this new form that would intersect with small loan lending, and what could that mean, and people-to-people, and I'm sure most of the people in this room know it's been shut down, as have its two competing entities, business models, by the SEC, because it turns out there was an argument that this was an investment vehicle, rather than the way we saw it, which was people-to-people small loan access.

MS. TAYLOR: I see no one is making a comment on where the SEC ought to be spending their time.

MS. WARREN: I thought it was, I felt safer knowing that PROSPER had been shut down at the very time that Bernie Madoff was still going forward. But I think back to our early meetings on foreclosure. I think back to the data and the warnings, and frankly, I think how quaint they look even six months later in terms of how very serious this problem has turned out to be. I think about Kelvin's point on what job loss is going to do to people, what losing homes is going to do to people, and how that intersects with financial services, and how financial services will be called on in ways that had not been called on before, how people who had been able to manage under one financial services, consumer financial services regime, may not be able to manage under a new regime. So all of this reminds me that it is a dynamic process out there. It's moving, and it's moving very, very fast. I think that Esther's point's right. The window may be open for a brief period of time to do something here, but I just want to be clear, there's no one who advocates on behalf of consumers, on financial products on a systematic basis. There is no one whose portfolio, when you open it up, says right up at the top, consumers, customers, people, families are the first thing we have to worry about, and we have some ability, some agenda to look at different financial products across the spectrum, because families don't live these, in the silos of regulatory agencies.

Checking accounts in one silo, and

fee for services in another, and mortgages somewhere else, they just don't work that way. And so I just suggest that there's been a real advantage to the fact that we have an Environmental Protection Agency that attracts the people who are interested in this issue, who have a broad portfolio to go forward on behalf of environmental issues, whether it's water, whether it's air, whether it's particulates, whether it's -- they have a really broad way to look at it. I am heartened by the fact that we have a Food and Drug Administration that does this. I am heartened by the fact that we have a Consumer Product Safety Commission that does this, and I just want to say, at some point, we need to think about this question of whether there should be something similar for consumers when we're thinking about financial products. Consumers are left naked in this world in terms of someone to think and advocate on their behalf in a systemic way. And God bless the regulators, like Sheila, who have certainly moved them up in the portfolio. But the bottom line is, it's fractured oversight, it's regulatory competition that creates forms of arbitrage that have caused effective regulation to become a null set, in some cases. And this is our moment, statutorily speaking, and if we spend it advocating for ten specific changes, and then congratulate ourselves that we made a difference, and it will make some difference, but it's a short term, non-systemic difference. And that means that all the changes will keep occurring, and five years from now, ten years from now, twenty years from now, if we have someone as interested as Sheila, our successors will be back in this room talking about a whole new set of problems that have emerged, and no one's been there to watch out for the consumer. So I just wanted to put on the table that we should be thinking about systemic change, not just discreet changes.

Thank you.

MS. TAYLOR: If you want to, and Marty, you know a lot more about how these things work than I do, but to do something such as you're talking about, which I think is an absolute fabulous idea, which is -- I think what you're saying basically is create a federal agency, or cabinet position, or whatever you want to call it, for consumers in the financial services arena.

MS. WARREN: Yes.

MS. TAYLOR: And I think that that's definitely worth advocating for. I don't know how fast it would happen, but I think there's some things that you can do to almost create the same thing without, you know, waiting for somebody to create a cabinet position. And one of the things that I worked on very hard when I was a banking superintendent was, you know, we saw what was going on in the mortgage industry, which was -- and you know, when I first started there, like two weeks later, the Comptroller of the Currency basically advocated all state lending and depository rules for banking institutions. Just a little bit of a shock. And so you could see right there that there were a lot of things that were going to fall through the cracks that had to do with consumers. You know, the whole mortgage industry, check cashing, money transmitting, all the rest of it that had very, very uneven regulation, but had huge impacts on the most vulnerable consumers. So what we did, I went to the Treasury Secretary at the time, which was John Snow, and said, look, you know, there's all this stuff that's going to fall through the cracks, so why don't you, Mr. Treasury Secretary, put together a committee which has the top of each of the agencies that touches financial services in it meet on a regular basis to talk some of the issues through, because if one of these entities is convinced to issue a regulation on something, it really doesn't matter, because there are all these other institutions that don't have to worry about this one agency. So why don't we come up with some things that all the agencies can do together? And I don't know what happened to that. I don't think it lasted very long.

MR. RYAN: The first time I mentioned mortgage brokers, they never met again.

MS. TAYLOR: Yes, okay. Fine.

MR. RYAN: And that's something, that's a lesson that I think we need to, in this dialogue to consider, that Washington has its own issues, and you cannot expect it to answer everything. It becomes so compromised, as someone who's spent 20 years on all of this. And the more you consolidate this industry, the more compromised it gets. And we have an FTC. We have things that have been gutted, and you have to think of the history of those things.

MS. WARREN: The answer can't be, we

can't make things better, because if the answer is, we can't things better, I'm going to go do something else. I'm not going to spend the rest of the afternoon here.

MS. TAYLOR: No, the thing is, though, that there are ways to do this, and we need to figure out -- I think we're all agreed that we need to do something here, and what we need to discuss now is how to do it, and the probabilities of success, and how do you get people on board, and advocate for it, and that sort of thing. So I think there are a bunch of different ways. I think your ideas are really fair minded. So we need to figure out how to work it.

MR. HENDERSON: Well Madam Chair, first of all thank you for entertaining this conversation. It's useful, and your leadership in providing us with a forum where we're comfortable about having a discussion like this is much appreciated, so thank you.

MS. TAYLOR: However --

MR. HENDERSON: No, no, it's not a however. Secondly, again I think that we are given a unique opportunity. I mean again, the challenge, the crisis is certainly real, and it's there, it's palpable, people see it, and it's actually deepening. It's getting worse in many respects. To have an advisory committee named for economic inclusion to have been created by the FDIC is really quite fortuitous in terms of being able to consider a range of options. I think, without making a commitment to any particular course of action, to give us a charge of being expansive in our thinking so that we take advantage of the assembled work and experience of this very diverse group, it seems to create many opportunities. Now I happen to like Elizabeth's recommendation, because I think it makes sense, and having seen lesser efforts, you know, there's something within the civil rights arena, an Office of Coordination and Review. It's in the Department of Justice.

It is given the responsibility of coordinating various civil rights enforcement activities among a variety of agencies. It's been an utter failure. Now part of it has of course been the responsibility of who is in charge. So who, the decider, makes a difference, okay? So without, you know, spending a lot of time on that, there has to be another way of institutionalizing a set of changes and recommendations that could be helpful. So without, you know, reaching any conclusions, I simply think this conversation is worth having. I think there are a variety of proposals that could be on the table, certainly Elizabeth's is one, and I think it's a sufficiently large idea, such that it speaks to the value of a group like this. I think the recommendations of the staff, in terms of thinking through a set of proposals that fall, or recommendations that fall under that would be very helpful. And you have a broad charge.

And again, I think this issue of

consensus, Deborah, I want to go back to that, because nothing that has been proposed is intended to foreclose the fact that we won't agree on everything. And if we don't, I think we should be frank about that, and as you said, Roberta, thank you, we don't have a consensus requirement, but I think among ourselves. You know, as people of integrity, we should respect the differences that we have. I think consensus is a very useful tool. It takes a long time sometimes to achieve that result, but I think you get a buy in and support that enables us to take those voices and amplify them many times over. So that I know, as Elizabeth is carrying out her responsibilities with TARP, as I'm meeting with various, you know, offices within this area, I bring a different perspective, as do my colleagues. We can be, you know, we can amplify the impact of the FDIC's work from the advice that we might provide in ways that I think will be very useful. So that's really, I think, the charge.

MR. RYAN: And I would fully agree with Peter's comments in taking a broad look at the industry. Someone who comes from the state side, I think we do need to look at all those components, what’s the appropriate role of federal rules, how they mesh together, and how we provide an adequate, comprehensive consumer protection. I strongly advocate for that.

MR. EAKES: So I wanted to just add to the systemic some very specific proposals, and see whether that would be something that made sense. We talked about whether or not, to make lifeline accounts, or something that's a very low cost account mandatory, which seems hard. I mean, it's hard to figure out how to do that exactly, but what you could do is FDIC by itself could publicize a list of the banks that had the highest percentage of their total checking accounts that met this low fee, low transaction cost model, and you know, we're all competitive. We want to be at the top of whatever list gets done, and I think that we'll have a -- there's some way we could use that, you know, whether it's CRA credit, or publicizing, or carrots and sticks, I think that comparing it to the other accounts, assuming that we're not yet able to get rid of some of the fees that I'd like to get rid of, which is the second proposal, and that is - Michael Barr mentioned it - the proposal to have overdraft fees counted under Truth in Lending, which was a proposal that the Federal Reserve looked at. They specifically reserved the right to come back and look at it again. It's been long enough that this committee and the FDIC weighing in could make a real difference.

A third very specific proposal would be that we recommend an expansion of the 36 percent interest rate ceiling that was adopted two or three years ago for military families under the Talent-Nelson Amendment.

You know, as Wade has pointed out a dozen times to me, if you have military members who were unable to be deployed because they were considered a security risk because they had payday loans that were putting them under stress, the same kind of issue applies for policemen, and teachers, and firemen, and nurses, and folks who are under stress because they've got these very high interest loans. And you know, there are bills being discussed. This was something during the FDR period that, you know, there was a movement to put an interest rate ceiling, and once you have something like that, then all of the institutions are put on a level playing field so that they actually, if it makes sense to say a checking account really should have a $3.00 or $4.00 a month monthly fee, that that's what it really does cost, rather than advertising that we have free checking, and the ten percent at the bottom of the pay every month end up paying all of the costs from penalty fees on overdrafts. We could change the financial services environment with that proposal very, very quickly. Title lending would have to conform on car loans. Payday lending would have to conform to a lower rate. And it seems like we might be able to get all three of those done. So mine are much more pedestrian than Elizabeth's, but it might supplement by having very specific things -- those three things I think we could do, and would make a real difference.

MS. TAYLOR: Actually, another concrete thing, too, which we talked about several years ago, if you recall, John, is having sort of a consumer national 311 number, where anybody who had a question about a financial services question could call, and somebody there would tell them where they could go to get the answer. Because as the superintendent of the Estate Banking Department, it's incredible how many people didn't know who -- and why would they -- who the supervisor for their particular financial institution is. So I mean that would go -- I mean, I think that would go a long way, because people could then, they would have one place that they could go and get the information that they needed to make intelligent decisions about things.

MR. EAKES: Being a pedestrian, if you don't own a car is okay.

MS. TAYLOR: Deborah?

MS. WRIGHT: I think just putting Elizabeth's proposal on the table would create such incredible national dialogue, which is what we need to have to put the consumer right on the table, and have to have every part of Washington respond to that, because that's really what needs to happen. We've been having these conversations in silos and, whether it happened in that forum or not, I think it would force everybody to deal with the issue.

I had a smaller question on your

proposal, and there's no doubt you know the answer to this: what does the Consumer Protection Agency do? Because undoubtedly, you're going to have a series of people, maybe me included as the taxpayer, so the last thing we need is another agency. So what do they do now, and is it possible to reform? I think we're going to have to think about sort of the little "p" politics of how we'll actually get something done as opposed to just a dialogue.

MS. WARREN: The Consumer Product Safety Commission right now does physical products. So basically, between the Consumer Product Safety Commission, the Department of Agriculture, the Food and Drug Administration, maybe a couple more, literally everything you touch, everything you taste, everything you smell, is checked for safety at some level. Not always perfectly. We know there have been some terrible problems with underfunding. But the point is, there's someone there who has it as their first responsibility, and someone to hold accountable if they fail to do it. That is not so with financial products. And I think the time for that -- I just want to make one other just very small point. In this context, we put the Consumer Product Safety Commission in effect back in the 70s, and the Nixon Administration was the first administration that embraced it, and said, we're going to have this thing together at a time when we had usury laws that were solid and strong at the state level. There were some state variation, but they were effective at the state level all across the country. And so it would be quite reasonable to say we found another way to deal with consumer financial products. We have usury laws in effect. We kicked the tent pole out on usury laws. It's gone. And so the center thing that held us up and said, nobody's going to go above whatever was your state usury law all in, so that there wasn't a reason to do these long deceptive contracts, because you just never could get above where the usury cap was. Once you kick that out, and don't put anything else in its place, that's how we end up with what we've got. And so I just mention it by way of kind of the history. I think if we'd been in the 1970s where we are today on financial products, I think at the same time we did a consumer physical product safety commission, we probably would have done a consumer financial product safety commission. Wether they would have been separate, whether they would have been the same agency, I don't know. But I don't think anybody looked around and said, gee, we don't care about your money, we only care about these other issues.

MR. BOSTON: I just want to say, I support your proposal, but I support it because, right now, with all the new regulation, and everything that's coming about, and there's going to be a lot of changes as it relates to what's going on. Most of us are trying to put the responsibility on the consumer. No one is asking any financial institution to be more responsible about what they present to the consumer. Nor are we asking our government to make sure that we have responsible products given. Part of our problem right now is that many people thought that what they were being sold was something that was indeed backed up, supported in some way by the Federal Government. That they allowed -- this product would not be available to us as a consumer unless somebody in the Federal Government has said it was okay to be provided. So I think we must think about making sure that our financial institutions as a body, not banks per se, but that we have responsible financial products, and I think that I support what you're saying, because I think this will help us get those types of responsibilities.

MS. TAYLOR: In all fairness, I think that the individual regulators try to do that with their regulated institutions. The problem is that there are some that fall through the cracks, and some are better at doing it than others. But that -- I think, you know, in all fairness, that is something that regulators try to do. However, effectively is a different story.

MR. RYAN: And I think that's where you need some of the checks and balances, and something that's been helpful, imperfect as it is, but at the state level, is we have a regulatory functions. But there's an AG who can come in, do investigations, take enforcement actions. And what I've seen evolved at the federal level is, for instance, the FTC had broad authority, but the banking regulators got to carve out bank customers as to the purview of the bank regulator. And we saw the bank regulators, to your point on the usury laws, preempt, allow the lowest state law to preempt all the other state laws. So it's -- I share your objective. I come at this with some trepidation and a little bit of cynicism about how, when you have one king, and I know that is not what you are suggesting, but the challenges that that poses.

MR. EAKES: There's no reason that it has to be preemptive federal decision that states are left to be concurrent.

MR. RYAN: Absolutely not, but we've seen it evolve over time, and so it's that experience, once again, where these things were not supposed to be preemptive. We had -- get a little pedantic here, but with interstate banking and branching, that was clearly in the law. It says, this does not preempt state consumer protection laws. And that's where I see Washington working in certain ways that, when the spotlight's not on, are troublesome. And you need some checks on that. And so that is not a reason not to do anything, and not to try to address what we all agree are serious problems.

MR. GRZYWINSKI: At the risk of

not saying anything that hasn't been said, there's a saying, there's a quotation that people like to throw around in Chicago, which goes back about 100 years or more, although probably more, from Daniel Burnham. Make no small plans. Then you have the power to move men's minds in the language of the day. But think of the -- if I may, think of key words of our situation right now. Economic crisis, okay, which means opportunity for change. Mandate from the electorate, okay, means momentum. A president who is leading, okay? A committee here that says economic inclusion, okay? It says economic inclusion for the FDIC. The FDIC is at the center of the nation's economic system of banks, okay? The FDIC has a leader who has been ahead of the game at risk to herself, okay, and is leading the charge, okay? We should be doing everything we can to support and better arm that leader. We should seize the momentum, okay, on behalf of the American family. We should not think small thoughts, okay? We should not be satisfied with the leavings of the day, okay? We are talking about the American middle class, everybody, okay? And what we have in front of us is an opportunity to try to create an economic safety net for the American family. And while I'm not the expert, I would say, lastly, that the law exists. The Community Reinvestment Act is written very, very broadly. The legislation is very broad, and there is a mandate here, I would argue. More would argue perhaps against me. But I think the pieces are there, the time is there, the need is there, and we ought to think big enough thoughts.

MS. TAYLOR: If I could add one thing to that, too. People talk about, as part of financial markets today, that we have a crisis of confidence, and the FDIC is all about confidence in the banking system, which I would just add to what you just said, but yes. So I think that's just that we're here to be used.

VICE CHAIRMAN GRUENBERG: Well, we picked you guys because you are interesting and provocative, and you haven't let us down.

(Laughter.)

VICE CHAIRMAN GRUENBERG: My only cautionary word is that I really do think it's unfortunate, it would have been helpful to have the Chairman here to take part in this conversation. And on her behalf, I would obviously say we really need to bring this to her attention, and sort of work it through with her.

MR. MOONEY: We will follow through, Madam Chairman, and do as Marty said, and cover broader and less discreet recommendations, everything we've heard here today. Financial education, product safety issues, and development of a product, consumer financial product safety bureau recognition, and Professor Warren and I have read every word you have written on that subject. It's quite impressive. And we all have an interest in that, and exploring the incentives, so we will do as you suggest.

MS. TAYLOR: I'll talk to the Chairman about ways that this committee could, with the FDIC, do some of the things that we've talked about here. And I think it would be useful for people to talk among themselves, too, some of the things that Wade was suggesting, you know, how could we have a broader impact?

Well, if nobody has anything else, I think we're starting to lose people. So, thank you all.

MR. McDONALD: I would just like to make one comment for the record. It's been said several times around the table about the Chairman's role in bringing this issue to bear some two and a half years ago, three years ago. I want to not only congratulate her, but to congratulate the entire staff of the FDIC in supporting this very, very important issue that is touching the lives of millions of people.

This one issue has a significant effect on the quality of life. And I just want to say again that, thanks to the leadership of the FDIC for bringing this issue of economic inclusion to the table. We've debated whether or not it was just for the underbanked or unbanked. We now see how big this picture is, and as Kelvin said, it's America that this issue is touching. So I would like to thank you guys once again for a job well done.

MS. TAYLOR: Thank you.

(Whereupon, the above-entitled matter was concluded at 2:54 p.m.)