ADOPTED APRIL 1, 2010

FDIC ADVISORY COMMITTEE ON ECONOMIC INCLUSION STRATEGIC PLAN

2010-2012

INTRODUCTION

Upon the approval of the FDIC's Board of Directors, the Chairman established the FDIC Advisory Committee on Economic Inclusion ("ComE-IN" or the Committee") in 2006 and extended its two-year charter in 2008. The purpose of the Committee is to provide advice and recommendations to the FDIC regarding expanding access to banking services by underserved populations. This Strategic Plan describes program areas in which the Committee can focus its work, particularly related to safety and affordability for consumers and feasibility for banks.

BACKGROUND INFORMATION REGARDING UNBANKED AND UNDERBANKED

For purposes of this Strategic Plan, "underserved" refers to households that are either "unbanked" or "underbanked." According to the FDIC Survey of Unbanked and Underbanked Households ("Household Survey"), "unbanked" means that no one in the household has a checking or savings account.[1] "Underbanked" is defined as those households that have a checking or savings account, but rely on non-bank, alternative financial services and providers, such as money orders, check cashing services, payday loans, rent-to-own agreements, pawn shops, or refund anticipation loans.

At least 25.6 percent of U.S. households, close to 30 million households with 60 million adults residing in them, are underserved.

- An estimated 7.7 percent of U.S. households are unbanked. This represents approximately 9 million households with about 17 million adults residing within.
- An estimated 17.9 percent of U.S. households are underbanked. This represents about 21 million households with about 43 million adults residing within.
- Certain racial and ethnic groups are more likely to be underserved than the population as a whole. Almost 54 percent of black households, 44.5 percent of American Indian/Alaskan households, and 43.3 percent of Hispanic households are underserved.

[1] All data regarding unbanked and underbanked households referenced in this Strategic Plan were obtained from the "FDIC National Survey of Unbanked and Underbanked Households," December 2009. http://www.fdic.gov/householdsurvey/ The data were collected through an FDIC-sponsored Unbanked/Underbanked Supplement to the Current Population Survey conducted by the U.S. Census Bureau in January 2009.

- Nearly 20 percent of lower-income households, those earning below $30,000, do not currently have a bank account. These households account for at least 71 percent of all unbanked households.

- The underbanked rate is more evenly distributed across income groups in that middle-income households, those with annual income between $30,000 and $50,000, are about as likely as lower-income households to be underbanked.

On the surface, it would appear that banks have a strong incentive for pursuing underserved consumers, given the sheer size of the alternative financial services industry. The annual dollar volume of alternative financial service provider transactions is estimated at more than $320 billion.[2] However, according to the FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked ("Bank Survey"), while 73 percent of banks are aware of significant underserved populations in their market area, less than 18 percent identify expanding services to these consumers as a priority in their business strategy.[3] Common reasons banks provided in the Bank Survey for not pursuing these customers include profitability issues, regulatory barriers, and fraud concerns. The following are some specific findings of the Bank Survey regarding the extent to which banks provide services targeted to underserved consumers:[4]

- 62 percent of banks report offering a basic, starter transaction account, but only 1 percent of banks do not permit overdrafts on basic accounts.

- Only 7 percent of banks offer workplace-based savings and 3 percent participate in the Internal Revenue Service's Volunteer Income Tax Assistance program.

- 49 percent of banks offer check cashing services and 41 percent offer money orders, while 12 percent offer prepaid cards, 18 percent offer bill paying services, and 6 percent offer remittances.

- 53 percent of banks report teaching financial literacy and 58 percent conduct financial literacy outreach.

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[2] Christine Bradley, Susan Burhouse, Heather Gratton, and Rae-Ann Miller, "Alternative Financial Services: A Primer," FDIC Quarterly, Volume 3, Number 1, March 2009. http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html

[3] All data regarding banks offering products and services tailored to the underserved were obtained from the "FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked" February 2009. The data were collected during 2008 from a sample of banks representing the population of banks. http://www.fdic.gov/unbankedsurveys/unbankedstudy/FDICBankSurvey_ExecSummary.pdf

[4] The extent to which banks offer small dollar loans is uncertain based on the Bank Survey. This was due to widespread apparent misinterpretation of a question by banks regarding offering small dollar loans to include overdraft lines of credit that distorted the results. This question will be clarified in subsequent survey efforts.

- With respect to offering alternate forms of identification, 27 percent accept Matricula Consular and 38 percent accept Individual Taxpayer Identification Numbers.[5]

From a consumer perspective, having access to appropriate mainstream financial institution services confers two primary benefits. First, banks provide a safe place for consumer savings. Basic, FDIC-insured savings accounts, with low or no minimum balances and fees, are easy to understand and use, provide a safe way to earn at least a modicum of return, and, unlike more sophisticated investment options, are accessible to consumers regardless of income level.

Additionally, mainstream financial institution services are often less costly than alternative financial services. For example, the Brookings Institution estimated that an employed consumer could save as much as $40,000 over his or her career by relying on a lower-cost checking account instead of check cashing services.[6] In another example, the FDIC's Small-Dollar Loan Pilot Program has demonstrated that banks can feasibly offer affordable small dollar loan products as an alternative to high-cost credit products, like payday loans and fee-based overdraft protection. Banks operating under the pilot offer small-dollar credit products below a 36 percent annual percentage rate (APR) versus the 400 percent APR or higher typically charged by payday lenders.[7]

However, not all bank products and services are beneficial to consumers from a cost perspective. For example, a consumer who is unfamiliar with or unable to manage a traditional checking account could potentially incur costly and unforeseen overdraft fees for misuse of the account.[8] There are also costs and other feasibility issues associated with banks providing products and services to underserved consumers, particularly for low-balance accounts and products.

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[5] The Matricula Consular is an identification card issued by the government of Mexico through its consulate offices to Mexican nationals residing outside of Mexico regardless of their emigration status. An Individual Taxpayer Identification Number (ITIN) is a tax processing number issued by the Internal Revenue Service (IRS) to individuals who are required to have a U.S. taxpayer identification number but who do not have, and are not eligible to obtain a Social Security Number (SSN) from the Social Security Administration. IRS issues ITINs to foreign nationals and others who have federal tax reporting or filing requirements and do not qualify for SSNs.

[6] Matt Fellowes and Mia Mabanta, "Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth-Building Potential," A Research Brief for the Metropolitan Policy Program at Brookings, January 2008.

[7] Susan Burhouse, Rae-Ann Miller, and Aileen Sampson, "The FDIC's Small-Dollar Loan Pilot Program: A Case Study after One Year," FDIC Quarterly, Volume 2, Number 2, August 2009.http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_2/SmallDollar.pdf

[8] See "Joint Guidance on Overdraft Protection Programs," February 2005 for a description of supervisory guidance regarding bank overdraft programs. http://www.fdic.gov/news/news/financial/2005/fil1105.html. See also "FDIC Study of Bank Overdraft Programs," November 2008 that sets forth data on the provision of overdraft services by FDIC-supervised banks and the use of those services by consumers. http://www.fdic.gov/bank/analytical/overdraft/FDIC138_ExecutiveSummary_v508.pdf

MISSION

The Committee provides advice and recommendations to the FDIC on initiatives to expand access to banking services by underserved populations. Initiatives are concentrated in, but are not limited to, the following program areas:

- Transactional Accounts
- Savings
- Affordable Credit
- Financial Literacy
- Incentives

VISION

The ComE-IN's vision is to support research, demonstration projects and pilots, and sound supervisory and public policies intended to improve appropriate engagement with mainstream financial institutions through its advice and recommendations. "Appropriate engagement" means that households are using financial products and services that are affordable, easy to understand, and not subject to unfair or unforeseen fees.

The Committee believes there are certain program areas in which the Committee can focus its work as set forth in this Strategic Plan in order to facilitate progress on improving appropriate engagement with mainstream financial institutions. The Committee recognizes that specific measures of improvement it may recommend to the FDIC in appropriate engagement are national goals that would require participation and cooperation of multiple stakeholders, including the FDIC, other government agencies, Federal, state and local policymakers, the financial services industry, nonprofit and philanthropic groups, consumer groups and consumers.

OBJECTIVES

The Committee's objectives for study and possible recommendations to the FDIC are in two relatively straightforward and complementary areas. The Committee hopes to accomplish these objectives through the initiatives as set forth in this Strategic Plan.

1) <u>Lowering the Level Of Underserved Households</u>: The Committee's efforts could prioritize economic inclusion activities towards certain racial and ethnic households that are most likely to be underserved, and on lower-income households that are most likely to be unbanked.[9] Accordingly, achievement of this objective could also be monitored in terms of reductions in the levels of underserved households among those groups. Assessment of achievement of this goal could also be measured in terms of appropriate engagement with the

[9] For example, the Household Survey reported that 54 percent of black households, 43.3 percent of Hispanic households, and 44.5 percent of American Indian/Alaskan households are unbanked or underbanked. In addition, 46 percent of households with less than $15,000 annual income and 25 percent of households with annual income between $15,000 and $30,000 are unbanked.

financial mainstream, ensuring that households are using financial products and services that are affordable, easy to understand, and not subject to unfair or unforeseen fees.

2) Increasing the Supply of Financial Products and Services Targeted to Underserved Households: The Committee's efforts could focus on encouraging the supply of appropriate bank products and services that are specifically tailored to the needs of underserved households. Achievement of this objective could be tied to the completion of the initiatives in the five program areas and could be monitored in terms of increases in the percentages of banks offering products and services targeted to underserved households in as many categories as possible. Assessment of this objective could be made in the context of prices charged by banks for such services and demonstration that prices are competitive with those charged by alternative service providers and do not involve opaque, unfair, or otherwise inappropriate fees or other charges.

Ongoing progress on these objectives could be tracked through the ongoing Household and Bank Surveys.[10]

PROGRAM AREA INITIATIVES

To achieve its objectives, the Committee believes there are certain program areas in which the Committee can focus its work. The following descriptions of program area initiatives delineate programmatic goals and estimated completion dates for each initiative. As initiatives progress, they may change and new or revised initiatives may be considered.

Transactional Accounts: *Identify safe, affordable, and innovative transactional accounts for low- to moderate-income (LMI) consumers and develop methods of stimulating bank offering of such products. Identify ways to encourage banks to provide products that support saving as well as handle financial transactions.*

- **Discuss and Gain External Feedback on Innovations in Safe Transactional Products and Sustainable Delivery Strategy Options for Underserved Consumers (Estimated Completion Date: March/April 2010) –** Gather practitioners, bankers, policy makers, and experts on safe financial products to discuss ways to identify suitable products and sustainable delivery strategy options. Discussion could include understanding the cost implications of these products and identifying ways to promote adoption on a sustainable basis among banks. Discussion could help in the development of an action plan to recommend to the FDIC to stimulate bank offering of safe transactional accounts for underserved households. This initiative could consider recommending FDIC sponsorship of a symposium.

[10] The Household Survey and the Bank Survey are expected to be re-administered in 2011.

- **Develop a Prototype "Suite" of Safe Transactional Products and Sustainable Delivery Strategies (Estimated Completion Date: June/July 2010 –** This effort could include identifying specific products and product features that provide underserved consumers with safe, convenient, and low-cost ways to: cash checks, store and save funds, gain access to cash when needed, pay bills, purchase money orders, and make account-to-account funds transfers. These products could consider traditional checking accounts, possibly linked to savings accounts, as well as employer-provided network branded payroll cardholder accounts, network branded prepaid cardholder accounts, and innovations like "savings pockets" embedded in prepaid accounts. Development of these product prototypes could also consider: account opening policies, bank personnel training, and the use of electronic payment platforms and innovative technologies that may lower product costs.

- **Identify Broad-Based Initiatives and Potential Collaborations to Encourage Banks to Offer the Suite of Products and Achieve Scale (Estimated Completion Date: Late 2010 –** The Committee could study ways to leverage existing local and regional programs or collaborations, including specific initiatives that it could recommend that the FDIC undertake on its own or jointly with other agencies, that encourage banks to offer transactional products and adopt sustainable delivery practices (*e.g.,* coalitions and Financial Institution Letters). This effort could also assess the effectiveness of mandatory laws and regulations (*e.g.,* state lifeline account laws) and explore ways to improve the effectiveness of the Community Reinvestment Act (CRA) services test or provide other, possibly more effective, incentives for banks to offer underserved consumers safe, low-cost products through the CRA.

<u>Savings:</u> *Identify ways to provide underserved consumers with safe and convenient ways to save, focusing on the short to medium-term horizon, that are also attractive to and feasible for mainstream financial institutions to offer.*

- **Study Whether a "Base Level" of Savings Can Be Set Forth, Particularly for Low- and Moderate-Income (LMI) Households, and Ways These Households May Currently Be Saving. (Estimated Completion Date: December 2010) –** Recognizing that increasing savings can be a double edged sword with respect to economic growth, the Committee could study what is a desirable level of emergency savings for households, how much is currently there, and what ways LMI consumers are saving, beyond mainstream financial institution accounts. The Committee also could consider access to funds through formal and informal credit and other channels to meet emergency needs. Also, the Committee could study the merits of various public policy initiatives to encourage saving, such as proposals that suggest using public and private funds for seeding savings accounts for all children. This initiative could consider recommending FDIC participation in a research project.

- **Define a Template and Delivery Options for Safe and Effective Savings Products for Underserved Consumers (Estimated Completion Date: March/April 2010) –** See Transactional Accounts Description above.

- **Develop a Prototype for Safe Savings Products and Sustainable Delivery Strategies (Estimated Completion Date: June/July 2010) –** See Transactional Accounts Description above.

- **Identify Broad-Based Initiatives and Potential Collaborations to Encourage Banks To Offer The Safe Savings Prototype and Achieve Scale (Estimated Completion Date: Late 2010) –** See Transactional Accounts Description above.

Affordable Credit: *Identify ways to stimulate the availability of safe, affordable, responsible credit to underserved consumers that is also feasible and profitable for financial institutions to offer.*

- **Consider Recommending a "Branding Effort" That Emphasizes the Small-Dollar Loan Pilot as a Safe Alternative to Payday Lending, Fee-Based Overdraft Protection, and Other High-Cost, Short-Term Credit Options (Estimated Completion Date: May/June 2010) –** The product features identified in the pilot could be "branded" as a template for safe, affordable, feasible, small-dollar loan programs. This initiative could consider recommending FDIC participation in making the template easily available through websites, FDIC.gov, Economicinclusion.gov, and speeches and outreach. This initiative also could consider whether support for the template could be garnered through a network of other organizations that recognize the merits of the template. Specific emphasis in the branding effort could be placed on encouraging banks to offer small-dollar loans as alternatives to fee-based overdraft protection.[11]

- **Highlight Findings of Small-Dollar Loan Pilot (Estimated Completion Date: June/July 2010) –** This initiative could consider recommending FDIC sponsorship of a close-out symposium and publication of an article to highlight final pilot findings, summarize technology and other innovations in small dollar loans, and address progress on incentives to scale safe, small-dollar loans across the financial mainstream. Both the symposium and the article could also emphasize and promote the Small-Dollar Loan Pilot "branding effort."

- **Study Creation of Pools of Nonprofit Funds or Government Operating Funds to Serve as "Guarantees" for Safe Small-Dollar Loan Programs (Estimated Completion Date: March/April 2011)** - Several existing small-

[11] The 2005 "Joint Guidance on Overdraft Protection Programs," supra, footnote 8, already provides encouragement for banks to offer alternatives to fee-based overdraft protection. The Guidance suggests "monitoring excessive consumer usage, which may indicate a need for alternative credit arrangements or other services, and inform consumers of these available options." These options could include small-dollar credit products.

dollar loan programs feature "guarantees" in the form of loan loss reserves or linked, low-cost deposits provided by government bodies or philanthropic groups. These guarantees provide important assurances to banks interested in providing loan funds and other support to the programs. To encourage more institutions to offer small-dollar loan programs, the Committee could study whether larger pools could be created and report its findings to the FDIC.

- **Study Feasibility of a Pilot Using Federal Workforces to Test Safe, Innovative Small-Dollar Loan Business Models (Estimated Completion Date: June/July 2011) –** The dominant model in the small dollar loan pilot is the "high-touch" relationship building model. Peer-to-peer technology and employer-based lending are promising technologies to reduce handling costs, and with employer-based models, potentially credit losses. The Committee could consider whether to recommend that the FDIC or other Federal workforces explore serving as pilots for testing innovative small-dollar loan business models, to the extent legally permissible.

- **Study Small Business Lending and Microfinance (Estimated Completion Date: September/October 2010) and Other Credit Topics as Appropriate**

<u>Financial Literacy</u>: *Examine current financial education delivery and research efforts, and consider recommendations to improve the dissemination of existing financial education resources and strategies.*

- **Consider Recommendations on How the FDIC Can Enhance Efforts to Promote Youth Financial Education (Estimated Completion Date: April 2010) –** Explore additional ways that the FDIC could integrate financial education into the K-12 classroom. For example, the Committee could explore potential synergies between the FDIC and the Department of Education, teachers' unions, state officials, and others.

- **Study the Development of a Certification Program for Third-Party Organizations (or Educators) that Provide General Financial Education (Estimated Completion Date: July 2010) –** Consider a framework for a certification program and strategy for its implementation and management. A certification program for financial educators could help assure financial institutions and others that support financial education that their dollars are channeled into reputable organizations. It could also help consumers identify potential sources to receive quality, objective financial education training. This initiative could consider a recommendation to the FDIC.

- **Explore Whether There Are Regulatory or Other Impediments to Making Changes to Promote Outcome-Based Financial Education (Estimated Completion Date: July 2010) –** As an example, in September of 2008, the FDIC amended its regulations to make it easier for FDIC-supervised banks to offer deposit and lending services as part of school financial education programs without having to file a branch application. The Committee could explore whether there are additional regulatory incentives, or potential regulatory impediments, to further encourage the delivery of financial education (and banking services tied to the financial education workshops).

- **Examine Education Efforts Over the Past 25 Years and Determine What Has Worked Well and What Has Not, and Consider How Financial Education Best Practices Observed by the Government/ Regulators Can Be More Broadly Disseminated to Practitioners (Estimated Completion Date: September 2010) -** The Committee could develop a white paper or literature review for the FDIC that summarizes existing knowledge for practitioners/funders and identifies areas for future study for researchers. The Committee could offer recommendations to the FDIC on how practitioners and other stakeholders can better access/receive financial education best practices from the federal banking regulators.

Incentives: *Study ways to encourage banks to lend and invest in LMI communities, and to offer responsible loan and deposit products to LMI and underserved individuals and families by offering stronger CRA incentives and visible demonstrations of support from the FDIC Chairman.*

- **Consider Ways to Encourage Banks to Offer Affordable and Responsible Products and that Small-Dollar Loan Programs Receive Positive Community Reinvestment Act (CRA) Consideration (Estimated Completion Date: Late 2010) –** Consider standards to ensure that CRA credit is given only for products that are beneficial and that harmful products are adversely considered. The Committee could consider recommendations such as guidance that specifically allows examiners to give small-dollar loan programs heavy weight as a "game changer," even if the program is relatively small. More generally, to continue to ensure that small dollar loan programs receive positive consideration under the Community Reinvestment Act (CRA) examination process, the Committee could consider recommending further guidelines for bankers and examiners.

- **Consider Ways to Focus More CRA Attention on Promoting Bank Services, Community Development and Helping LMI Consumers Build Assets (Estimated Completion Date: Late 2010) –** The Committee could recommend to the FDIC further guidance that focuses more attention on asset building, transaction services, and partnerships with nonprofits and less on merely providing alternative systems (*e.g.,* Internet banking) for delivering services. The Committee could consider recommending that the small bank rating criteria be changed to consider asset building and savings products for LMI consumers. The Committee also could recommend changes that allow examiners to give heavy weight to "game changing" savings programs, like IDAs or low-cost savings accounts, even if the program is relatively small.

- **Consider Ways to Support Community Development Financial Institutions (CDFIs) from banks (Estimated Completion Date: Late 2010) –** The Committee could consider how to encourage banks to provide more support for CDFIs, possibly through increased CRA credit, and make appropriate recommendations to the FDIC. In addition, the Committee could consider how to encourage banks to "adopt" CDFIs by providing funding, lending expertise, and strategic and technical assistance.

- **Consider Chairman's Award for Outreach to LMI Consumers (Estimated Completion Date: Mid 2011) –** The Committee could consider recommending the FDIC create a high profile FDIC Chairman's award that provides positive publicity for programs that creatively reach out to underserved LMI consumers. The Committee could consider a sufficient number of awards for the development of programs or increase in services where they do not currently exist. For example, individuals at an institution who spearheaded a program could be the recipient of the award. The awards could rest on demonstrated results (such as behavioral change), not just on product offerings or financial education.

EXTERNAL FACTORS

Business Conditions: The recession that started in December 2007 has been the longest and deepest since the 1930s. Moreover, with an unemployment rate at 10 percent, continuing problems in residential and commercial real estate markets, and household and business balance sheets still in need of repair, recovery is likely to proceed more slowly than following more recent declines. The Committee is concerned that prevailing economic conditions will force more consumers to leave the mainstream financial system.[12] Additionally, these economic conditions, combined with sweeping changes in financial services supervision and regulation that are drastically reshaping our financial system, could distract and discourage some financial institutions from reaching out to underserved consumers.

Other Stakeholders: The Committee recognizes that the FDIC may not have the ability to directly implement or influence all of the Committee's recommendations that arise from these initiatives intended to improve appropriate engagement with the financial mainstream.[13] Similarly, there are challenges to measuring whether and to what extent execution of the Committee's initiatives can be linked to decreasing the national level of underserved households.

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[12] "Report of FDIC's Advisory Committee on Economic Inclusion's February 15, 2009 Meeting," October 8, 2009, which describes issues and challenges related to increasing access to the financial mainstream. http://www.fdic.gov/about/comein/committeereport2009.pdf

[13] Ibid