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**Notable Practices from
the 2011 FDIC Chairman's
Award for Excellence
in Serving the Needs
of Low- and Moderate-
Income Consumers**

FEDERAL DEPOSIT INSURANCE CORPORATION



Introduction

The FDIC announced the three winners of the 2011 Chairman's Award for Excellence in Serving the Needs of Low- and Moderate-Income Consumers (Chairman's Award) on June 1, 2011. The award recognizes the work of individuals at FDIC-insured institutions who develop products or programs that creatively and responsibly meet the banking needs of low- and moderate-income (LMI) consumers.¹

Nationally, 7.7 percent of all U.S. households are unbanked, and another 17.9 percent are underbanked, comprising more than a quarter of all U.S. households and approximately 60 million adults. An even larger proportion of lower-income households are unbanked; among the 7 million U.S. households that earn less than \$30,000 per year, nearly 20 percent do not have a bank account.²

The FDIC is committed to ensuring that these and all Americans have access to safe and affordable banking services. The work of the winners of the 2011 FDIC Chairman's Award, as well as the other nominees, contributes significantly to this mission.³

The FDIC has compiled a set of notable practices from the Chairman's Award winners and the other nominees that may be helpful to banks interested in serving LMI consumers. All of the notable practices described are from actual work by bank staff. The FDIC encourages banks to view these practices as examples of how to serve LMI consumers in their community. This report also highlights and describes the work of the award-winning programs developed by the employees at WesBanco Bank in Wheeling, West Virginia; United Bank in Atmore, Alabama; and Brotherhood Bank & Trust in Kansas City, Kansas.

Mortgages – Notable Practices

The collapse of the housing market and the problems in subprime lending leading up to the financial crisis have caused many banks, regulators, and policymakers to reconsider how best to serve LMI homebuyers. Many banks have greatly reduced their lending to these consumers and concerns exist about the risk inherent in some LMI lending practices. However, the lessons from the 2011

¹ See <http://www.fdic.gov/about/comein/lmiaward.html>.

² See "FDIC National Survey of Unbanked and Underbanked Households," December 2009, available at http://www.fdic.gov/householdsurvey/full_report.pdf.

³ Financial institutions and programs mentioned in this article are for illustration purposes only. The FDIC does not endorse any individual organization or specific product.

WesBanco Bank *2011 FDIC Chairman's Award for Excellence in Affordable Credit for LMI Consumers*

Mr. Robert Young, Mr. Joseph Flynn, Ms. LaReta Lowther, Ms. Lisa Werner, and Ms. Jayme Payton of WesBanco Bank in Wheeling, West Virginia, received the Chairman's Award for their work on the CRA Freedom Loan Series, a suite of loan products designed to respond to the critical financing needs of LMI borrowers. The suite consists of three distinct products: the CRA Freedom Mortgage, the CRA

Chairman's Awards suggest that banks that are committed to serving this population can do so safely, soundly, and feasibly. Indeed, the nominated programs reported low delinquency and loss rates.

- **LMI Targeted Products** – Nominated banks sought to serve LMI homebuyers with products and programs that were appropriate and specifically tailored to their target community. Many banks set income limits for loans originated through these programs to ensure that the loans were made to LMI borrowers, but at least one program lent to all borrowers purchasing homes in LMI census tracts, regardless of income level, to encourage investment in these communities.
- **Flexible Underwriting** – Many LMI homebuyers have little or no credit history but may be otherwise creditworthy borrowers. Banks that lent to these borrowers generally had flexible underwriting standards and accepted alternative evidence of creditworthiness, such as documented histories of paying rent, utility, cable, or phone bills on time. In addition, since many LMI borrowers have blemished credit, one lender focused on the past 12 months of the borrower's credit history and made allowances for medical collections and other small collections. Some programs also accepted alternative forms of identification.⁴
- **Reasonable Debt Ratios** – Most of the nominated mortgage programs allowed qualifying debt-to-income ratios of 40 percent. This allowed LMI borrowers to access a loan sufficient to purchase a home yet still have adequate cash flow to make repayments.
- **Reasonable Loan-to-Value (LTV) Ratios** – A large downpayment is a substantial barrier to homeownership for LMI households, so nominated programs often accepted higher LTVs. Generally, the nominated banks asked for a 10 percent downpayment, although at least one program made loans with 5 percent down. The nominees experienced minimal losses from these programs, when combined with other suitable underwriting.
- **Partnerships** – Working with government, community, or other local organizations greatly contributed to the success of nominated LMI mortgage lending programs. Many banks worked with local housing agencies to provide homebuyer education and other assistance with affordable housing initiatives,

⁴ For example, several banks accept Matricula Consular cards.

Freedom Modernization Home Improvement Loan, and the CRA Freedom Auto Loan.

The CRA Freedom Mortgage is a 30-year, fixed-rate mortgage for LMI borrowers and higher income borrowers who purchase owner-occupied homes in LMI neighborhoods. The loan features a reasonable minimum credit score and flexible underwriting based on the past 12 months of a borrower's credit history. The borrower is required to complete face-to-face pre-purchase counseling. Borrowers also can obtain a CRA Freedom Mortgage Refinance loan, which suits borrowers with high initial LTV ratios and credit difficulties and precludes equity cash-outs.

The CRA Freedom Modernization Home Improvement Loan is a fixed-rate, unsecured loan for home improvement projects. Again, this loan is targeted to LMI borrowers and borrowers in LMI neighborhoods and features a low minimum credit score and flexible underwriting.

The CRA Freedom Auto Loan is designed to enable LMI borrowers to purchase affordable vehicles and to refinance vehicles purchased at a higher interest rate. The loan is a fixed-rate product with a low minimum credit score and reasonable debt-to-income ratio.

All of the CRA Freedom products have performed well, particularly considering the economic environment over the past four years. The product suite also is innovative in its cohesive, targeted approach to lending to LMI consumers for homeownership, home improvement, and auto purchases.

and one program worked with a local real estate agent that helped refer potential borrowers. Other nominees worked with the Federal Home Loan Bank system or the U.S. Department of Housing and Urban Development's Neighborhood Stabilization Program.

- Homeownership Counseling – Many of the nominees combined their mortgage lending programs with targeted financial education or homebuyer counseling, and some mandated participation as a requirement for the loan. In most cases, the counseling was provided through third parties, including community partners.
- Building on FDIC Best Practices – Many nominated banks' mortgage lending programs were largely consistent with the best practices for LMI mortgage lending identified at a 2008 FDIC forum on LMI mortgage lending.⁵

Small-Dollar Lending – Notable Practices

Payday loans and fee-based overdraft services remain a costly source of emergency credit for many LMI consumers. Payday lenders often charge consumers more than 400 percent APR for a small-dollar loan, and in a 2008 FDIC study, banks charged a median overdraft fee of \$27.⁶

The FDIC has encouraged more banks to offer small-dollar loans. The FDIC Small-Dollar Loan Pilot demonstrated that it can be feasible for banks to make these types of loans and that small-dollar loan programs provide banks with an opportunity to attract new customers and develop long-term relationships with consumers in their community.⁷ The FDIC received several Chairman's Award applications from institutions that have built promising small-dollar lending programs.⁸

⁵ See Best Practices from the FDIC's Forum on Mortgage Lending for Low- and Moderate-Income Households, (FIL-88-2008), available at <http://www.fdic.gov/news/news/financial/2008/fil08088a.html>.

⁶ See "FDIC Study of Bank Overdraft Programs," November 2008, available at http://www.fdic.gov/bank/analytical/overdraft/FDIC138_Report_Final_v508.pdf. Industry reports suggest that overdraft fees have remained flat since 2008. See <http://www.reuters.com/article/2011/03/07/idUS172732+07-Mar-2011+BW20110307>.

⁷ More information on the FDIC Small-Dollar Loan Pilot, including a list of participating banks, is available at <http://www.fdic.gov/smallollarloans/>.

⁸ The 28 banks that participated in the FDIC Small-Dollar Loan Pilot were excluded from the 2011 FDIC Chairman's Award as stated in the call for nominations.

- Cooperative Lending – Some nominated banks developed successful small-dollar lending programs in cooperation with other banks, credit unions, and community partners. These banks pooled loan funds to diversify risk and reduce costs. One large cooperative lending program attracted grant money, allowing the cooperative to institute a matched savings incentive for borrowers.
- Community Partners – Many nominated banks reduced costs by partnering with community organizations and outsourcing financial education, underwriting, and marketing. Community partnerships also offered potential borrowers who might not trust banks a new way to access loans and other financial services in a more comfortable setting.
- Diverse Product Purpose – Well-designed small-dollar loan products not only provide consumers with an affordable form of short-term emergency credit but also help consumers beyond their immediate needs. Nominated banks offered small-dollar loans that included mandatory or matched savings components to reduce further reliance on emergency credit, credit-building functions to repair credit history problems, and mandatory or optional financial education. Banks also suggested that consumers use the small-dollar loans to pay off existing payday loans and kept small-dollar lines of credit open for consumers to protect them from overdraft fees.
- Building on the FDIC Small-Dollar Loan Pilot – For banks interested in developing a small-dollar lending program, the FDIC Small-Dollar Loan Template provided a valuable resource. Nominated banks studied FDIC research from the pilot with an eye toward adapting the product to their bank, and one bank contacted pilot bankers to discuss their programs and program development choices.⁹

Savings – Notable Practices

Savings provide LMI consumers with financial security; the ability to weather an income loss; and assets to invest in housing, education, a business, or retirement. Banks can support LMI household savings by providing the right product, incentives, and encouragement.

⁹ A list of the banks that participated in the FDIC Small-Dollar Loan Pilot is available at <http://www.fdic.gov/small-dollar-loans/participants.html>.

- **Matched Savings Incentives** – Banks can increase the savings of LMI consumers and encourage new households to become savers by offering matched savings incentives. Nominated banks offered matching incentives to LMI consumers who saved in an individual development account (IDA) or who purchased savings bonds.
- **Tax Time Savings** – For many LMI households, the Earned Income Tax Credit (EITC) represents the largest lump sum payment they receive in a year. Banks operated Volunteer Income Tax Assistance (VITA) sites, which help LMI consumers prepare their taxes, and encouraged these consumers to save their tax refund in either a traditional savings account or an investment account. Banks that offered on-site online account opening were able to increase the number of accounts opened.
- **Combined Loan and Savings Programs** – Some credit builder programs targeted to LMI consumers allowed borrowers with thin or nonexistent credit histories to take out small-dollar loans to fund a certificate of deposit (CD). These programs allow the consumer to make periodic payments to pay off the loan, build a credit history, and access the funds saved in the CD upon maturity.

Transaction Products – Notable Practices

A simple bank account is the gateway to the entire financial mainstream. Yet many U.S. households, particularly LMI households, do not have a checking account. Providing safe, affordable, and transparent transactional products targeted to LMI consumers is an important way for banks to reach this untapped market and help every consumer enjoy the benefits of the mainstream banking system.

- **Flexible Account Opening Requirements** – Some nominated institutions made their transaction products more accessible by broadening the account eligibility criteria. By accepting alternative forms of identification such as a foreign passport or by having less stringent credit score requirements, banks were able to open checking accounts for customers who would otherwise be ineligible.
- **Stepping Stone Accounts** – In some cases, the transaction accounts offered by nominated banks were designed to help

United Bank

2011 FDIC Chairman's Award for Excellence in Transactional Accounts for LMI Consumers

Ms. Cathy Lowery, Ms. Danyelle Morris, Ms. Jane Woods, Ms. Marina Simpson, and Ms. Donna Gilman of United Bank in Atmore, Alabama, received the Chairman's Award for their work on United Bank's Gateway Checking Account, which targets consumers with low or no credit scores who may not otherwise qualify for a checking account. United Bank first offered the Gateway Checking Account in 2007. Since then, the bank has continued to adjust the account features to make the account a more sustainable and suitable product offering. Today, the account features paper checks but no debit or ATM card. Other services include free telephone, Internet, and mobile banking,

their customers re-establish a good banking history. These types of accounts often had fewer features, like no check writing. Often, however, customers who used these accounts successfully were able to upgrade to checking accounts with more features.

- **Low, Transparent Fees** – Fees are not necessarily a barrier to account ownership for LMI consumers, who are likely willing to pay a fee as long as it is transparent and fair. However, many unbanked and underbanked LMI consumers have had difficulty with overdrafts in the past. Therefore, consistent with applicable consumer protection requirements, banks seeking to target these consumers should be clear about the fees associated with the account. Transparent fees also help foster trust between the consumer and the bank.
- **Avoiding or Reducing Overdrafts** – Noteworthy transaction accounts were designed to avoid overdrafts. For instance, award-winner United Bank removed the ATM and debit card features from its Gateway Checking Account to help consumers avoid overdrafts (see Box 2 for a complete description of the program). The bank allowed check writing and a maximum of two nonsufficient funds (NSF) transactions per month. An NSF fee is assessed for these transactions and the account is closed after additional NSF transactions.¹⁰

and e-statements. The accounts also have no overdraft fees and charge a monthly service charge of \$10.00 per month. After six months of satisfactory account performance, the account can be upgraded to a checking account with more features.

To increase accessibility, United Bank relaxed its qualification requirements for its basic checking account, which previously required a minimum credit score of greater than 550 and an assessment of the individual's banking and credit history. Now the Gateway Checking Account is available to individuals with no credit score or credit scores between 476 and 549. If an individual has a qualifying score or no score but does not meet the credit history criteria, the account may still be opened with the approval of a manager or supervisor.

This account also is accessible to immigrants. For instance, the bank opened Gateway Checking accounts for recent Mexican immigrants who moved to its market area to work on reconstruction after Hurricane Katrina. The bank accepts alternative forms of identification, such as foreign passports, when opening accounts and employer identification cards as a secondary form of identification.

As of the first quarter of 2011, United Bank had opened 1,238 Gateway Checking accounts. Of those accounts, 519 had performed well for at least six months and were upgraded to another checking product. The average balance in Gateway Checking accounts was approximately \$800.

¹⁰ Participants in the FDIC Model Safe Accounts Pilot were excluded from the 2011 FDIC Chairman's Award, but these banks are currently offering transaction accounts to LMI consumers with no overdraft or NSF fees. For more information on the FDIC Model Safe Accounts Pilot, please visit <http://www.fdic.gov/consumers/template/>.

Outreach – Notable Practices

A well-planned outreach program can be instrumental in a bank's strategy for serving LMI consumers and fundamental to the bank's success. Outreach programs are a vehicle for promoting products and services, and they also help banks create a presence in the community, build trust with customers, and inform product offerings.

- **Comprehensive Strategy** – A number of noteworthy outreach programs developed comprehensive suites of products targeted to specific populations. These programs provided basic transaction accounts; savings products; remittances; credit products; and financial education as part of a unified offering to specific Hispanic, immigrant, African-American, and military communities.
- **Financial Education** – Financial education was a common component of many programs. Nominated banks provided financial education directly to consumers or through community partners. The most common financial education topics were basic financial education, credit repair, and homeownership counseling. Some banks offered financial training to community-based organizations and helped build their capacity to better serve their community.
- **Reaching Out to the Right Market** – Establishing relationships with and delivering services to LMI consumers can pose many challenges to bankers, who may not know how and where to meet potential LMI customers. To address this challenge, nominated banks consistently leveraged the expertise and knowledge of community organizations, nonprofits, public housing agencies, and faith-based organizations. Nominated banks reached out to LMI consumers at their workplace, at their community center, or in their neighborhood. Delivering financial education and banking services through a traveling bus that could reach consumers in the heart of their community was one particularly innovative outreach strategy presented in the nominations.
- **Constant Learning** – Discussions with the winners revealed a clear need for continuous learning and reassessment by banks. Serving a target population requires banks to think critically about their messaging and offerings, to listen to their customers and community partners, and to continuously evolve and adjust their products and their thinking about serving LMI customers.

Brotherhood Bank & Trust *2011 FDIC Chairman's Award for Excellence in Outreach to LMI Consumers*

Ms. Licha Ibarra and Ms. Leonor Padilla of Brotherhood Bank & Trust in Kansas City, Kansas, received the Chairman's Award for their work on the bank's Hispanic Outreach Program (HOP), which provides a wide range of financial services to underbanked and LMI populations in Kansas City. The program is composed of six elements:

- Alternative identification certification,
- Home ownership using a uniquely underwritten mortgage product and Affordable Housing Program grant assistance,
- Financial education in Spanish,
- Financial products and services in Spanish,
- Participation in Hispanic/Latino community events, and
- *Directo a Mexico* low-cost remittance products (offered through the Federal Reserve with the cooperation of the Mexican government).

Through the HOP, the bank accepts and processes applications for loans for which alternative forms of identification are accepted. The HOP mortgage product is a 30-year, fixed-rate loan requiring a 10 percent down payment. Because many HOP borrowers do not have credit histories, the bank uses alternative proof of creditworthiness, such as documentation of timely rent, utility, or cell phone bill payments. Home loan candidates complete an eight-hour home buyer education course, conducted in Spanish, to become certified. In 2010, more than 70 LMI Hispanic families used HOP mortgage loans to purchase homes. To date, \$6.7 million has been loaned through the program.

The HOP has encouraged other deposit relationships as well, and has resulted in a significant increase in the number of account openings by members of the LMI Hispanic

- Community Investments – Some nominated banks found creative ways to serve the LMI population by investing in their community. For instance, one bank invested in low-income senior citizen housing through the purchase of tax credits. Another bank offered technical assistance and capital for storefront renovations for small businesses in LMI neighborhoods.

Conclusion

The notable practices presented in this report serve as examples of ways in which individuals and banks are striving to create a banking system that serves a broad spectrum of consumers, including those of low or moderate income. Comprehensive strategies that leverage community resources and periodically re-evaluate program features were among the most promising approaches used by the Chairman's Award nominees.

The FDIC has long encouraged all banks to responsibly serve LMI consumers. The FDIC remains committed to building a more inclusive banking system and supports the work of institutions like the Chairman's Award recipients and nominees. Through its various initiatives, the FDIC will continue to identify and share with the banking community ideas and practices to help expand banking services to all consumers in a way that is responsible, affordable, and feasible.

community. Core deposit accounts with the HOP increased 26 percent from 2009 to 2010; 148 savings accounts and 60 checking accounts were opened during that period. To help make these products accessible to LMI Hispanic customers, the bank has a dedicated Spanish phone line, a Spanish language section on its website, and Spanish brochures and print materials about products and services. In addition, the HOP's involvement in educational outreach to LMI Hispanics and participation in community events has helped drive account growth.

For more information on the FDIC's Chairman's Award for Excellence in Serving the Needs of Low- and Moderate-Income Consumers, please visit <http://www.fdic.gov/about/comein/lmiaward.html>. For information on all of the FDIC's economic inclusion initiatives, please visit <http://economicinclusion.gov/>. For questions about the Chairman's Award please contact Susan Burhouse, Senior Financial Economist, Division of Depositor and Consumer Protection.

