

Minutes
of
The Meeting of the FDIC Advisory Committee on Economic Inclusion
of the
Federal Deposit Insurance Corporation
Held in the Board Room
Federal Deposit Insurance Corporation Building
Washington, D.C.
Open to Public Observation
December 2, 2009 - 8:45 A.M.

The meeting of the FDIC Advisory Committee on Economic Inclusion ("ComE-IN" or "Committee") was called to order by ComE-IN Chairman Diana L. Taylor.

The members of ComE-IN present at the meeting were: Diana L. Taylor, ComE-IN Chairman and Managing Director, Wolfensohn & Company, L.L.C., New York, New York; Michael S. Barr, Assistant Secretary for Financial Institutions, Department of the Treasury; Ted Beck, President and Chief Executive Officer, National Endowment for Financial Education; Kelvin Boston, Executive Producer and Host of PBS' *Moneywise with Kelvin Boston*; Martin Eakes, Chief Executive Officer, Self-Help/Center for Responsible Lending, Durham, North Carolina; Ester R. Fuchs, Professor, School of International and Public Affairs, Columbia University; Ronald Grzywinski, Chairman, ShoreBank Corporation of Chicago; Alden J. McDonald, Jr., President and Chief Executive Officer, Liberty Bank and Trust, New Orleans, Louisiana; Bruce D. Murphy, Executive Vice President and President, Community Development Banking, KeyBank National Association; John W. Ryan, Executive Vice President, Conference of State Bank Supervisors; J. Michael Shepherd, President and CEO, Bank of the West and BancWest Corporation; Robert K. Steel, Chairman of the Board of Trustees, The Aspen Institute; Peter Tufano, Sylvan C. Coleman Professor of Financial Management, Harvard Business School, and Senior Associate Dean for Planning and University Affairs; and Deborah C. Wright, Chairman and Chief Executive Officer, Carver Bancorp Inc., New York, New York. Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen AME Cathedral of New York, participated in the meeting by telephone. Committee members Lawrence K. Fish,

Former Chairman and CEO, Citizens Financial Group, Inc.; Wade Henderson, President and CEO, Leadership Conference on Civil Rights, and Counselor to the Leadership Conference on Civil Rights Education Fund; Manuel Orozco, Senior Associate at the Inter-American Dialogue, and Senior Researcher, Institute for the Study of International Migration, Georgetown University; and Elizabeth Warren, Leo Gottlieb Professor of Law, Harvard Law School, were absent from the meeting.

Members of the Federal Deposit Insurance Corporation's ("Corporation" or "FDIC") Board of Directors present at the meeting were Sheila C. Bair, Chairman, Martin J. Gruenberg, Vice Chairman, and Thomas J. Curry, Director (Appointive). Roberta K. McInerney, Designated Federal Officer for the Committee and Deputy General Counsel, Consumer and Legislation Branch, Legal Division, was also present at the meeting. Corporation staff who attended the meeting included Ruth R. Amberg, Heather L. Basnett, Michael W. Briggs, Luke H. Brown, Susan Burhouse, Patricia I. Cashman, David Chapman, Karyen Chu, Timothy Critchfield, Patricia Devoti, Tiffany K. Froman, Ryan M. Goodstein, Heather Gratton, Leneta G. Gregorie, Angelisa M. Harris, William F. Harral, Sally Kearney, Ellen W. Lazar, Alan W. Levy, Rae-Ann Miller, Skip Miller, Tariq A. Mirza, Janet V. Norcom, Yazmin E. Osaki, Barbara A. Ryan, Luke W. Reynolds, and Katherine Samolyk. William A. Rowe, III, from the Office of the Comptroller of the Currency also attended.

Committee Chairman Taylor opened and presided at the meeting. After Committee Chairman Taylor welcomed ComE-IN members and provided an overview of the meeting agenda, Chairman Bair underscored the importance of the just-issued FDIC National Survey of Unbanked and Underbanked Households ("Household Survey"). She suggested that the survey results demonstrate a great deal of work is yet to be done to achieve the goal of economic inclusion and emphasized the importance of addressing the issue of overdraft fees to ensure that, as people are brought into the banking system, they are brought into the right kinds of products. Chairman Bair also expressed an interest in hearing Committee members' thoughts on several topics, including the recent amendments to the Board of Governors of the Federal Reserve System's ("FRB") *Electronic Funds Transfer* regulation ("Regulation E") restricting overdraft charges for ATM and debit card transactions; the potential for more robust enforcement under existing guidance issued by the FDIC and other federal banking agencies in 2005 on overdraft programs; and how best to build on the success of the Corporation's Small-Dollar Loan Pilot Program ("SDL Pilot") by expanding it and making it a staple product for banks. Vice Chairman Gruenberg, noting that the Household Survey report is concise and readable, hailed it as

groundbreaking work that would inform the Corporation's and the Committee's work going forward and complimented the survey team, led by Barbara A. Ryan, Deputy to the Vice Chairman.

Ms. Ryan, after introducing the members of the survey team, briefed the Committee on antecedents to the Household Survey, the survey planning process, and the survey methodology.

Next, as a prelude to her presentation of the survey results, Ms. Ryan provided the definitions of "unbanked" and "underbanked," noting that respondents who indicated they did not have a checking or savings account were identified as unbanked and that respondents who indicated they did have a checking or savings account, but also relied on alternative financial service providers at least once or twice during the preceding year, were identified as underbanked. She further provided the definition of "householder," indicating that such references in the survey report are intended to identify the person who rents or owns the dwelling.

In her presentation of the survey results, Ms. Ryan focused on high-level findings, advising that an estimated 7.7 percent of U.S. households, or approximately 9 million with at least 17 million adults, are unbanked; that an estimated 17.9 percent of households, or approximately 21 million with at least 43 million adults, are underbanked; and that the Household Survey findings are not too far out of line with results of the FRB *Survey of Consumer Finances*, last conducted in 2007, indicating that 7.9 percent of U.S. families did not have a bank transaction account, and the Center for Financial Services Innovation *Underbanked Consumer Study*, published in 2008, indicating that there were an estimated 40 million unbanked and underbanked households.

Further elaborating on unbanked households, Ms. Ryan advised that such households are more likely to be black, Hispanic non-black, American Indian/Alaskan minorities; speak only Spanish at home; be foreign-born non-citizens; be headed by unmarried females or males; earn less than \$30,000 per year; have less than a high school degree; or have a householder under the age of 45, with unbanked households almost evenly split between those that were previously banked, 28 percent of which became unbanked within the past year, and those that have never been banked. With regard to regional and state differences in the unbanked, she advised that the percentage of unbanked households is highest in the South; that there is notable variation in the proportion of unbanked households across states, both overall and for certain racial and ethnic groups; and that unbanked households are more prevalent in urban and rural areas than in suburban areas. Addressing the reasons never banked and previously banked

households are unbanked and the likelihood of their opening an account in the future, she advised that frequently cited reasons among the never banked for being unbanked were not having enough money to feel they need an account, not writing enough checks, high minimum balance requirements, and not seeing the value of having an account; while frequently cited reasons among the previously banked for being unbanked were not having enough money to feel they need an account, high service charges, bouncing too many checks, or having too many overdrafts, with previously banked households indicating a greater likelihood of opening an account in the future to write checks and pay bills. Finally, she touched on the use of alternative financial services ("AFS") by the unbanked, noting that two-thirds of such households reported using at least one such service, suggesting a strong reliance on cash transactions by one-third of unbanked households; that transaction services such as money orders and check cashing were used more frequently than credit services such as payday loans; and that previously banked households were more likely to use AFS than never-banked households. She also reported that 16.4 percent of underbanked households use prepaid debit cards, versus 18.8 percent of previously banked households, suggesting that such cards are increasingly being used as an alternative to a traditional bank account by those who are unable to maintain a successful relationship with the traditional banking system.

Next turning to findings on underbanked households, Ms. Ryan indicated that, although they are similar in some ways to unbanked households, there are also differences, with underbanked households more likely to be black, American Indian/Alaskan, or Hispanic non-black; have incomes up to \$50,000; have a high school degree; be headed by an unmarried female or male householder; or have a householder under the age of 55. She then noted that, similar to the geographic distribution of unbanked households, underbanked households are more concentrated in the southern region, exhibit variations across states and for certain races and ethnicities, and are more prevalent in urban and rural areas than in suburban areas.

In conclusion, Ms. Ryan stated that the survey findings suggest a strong opportunity and imperative for government and industry to work together to expand mainstream financial access to underserved populations and, in doing so, to take into account the differences between unbanked and underbanked households when designing economic inclusion policies. She also noted the Corporation's intent to further mine the Household Survey data to conduct additional analysis of AFS use, with a focus on state variations and the extent to which such variations may be related to differences among state laws, to better inform the

Corporation's next survey of bank efforts to serve the unbanked and underbanked ("Bank Survey"), and to identify lessons learned in preparing to conduct the second Household Survey in June 2011. In particular, after enumerating some of the findings of the Bank Survey, she observed that one of the recommendations arising from that survey was to define as a shared government and industry goal the lowering of the number of unbanked and underbanked households and suggested that measuring progress toward such a goal could be based on periodic estimates of the size of the groups obtained through the Household Survey.

Having completed her overview of the Household Survey results, Ms. Ryan announced the Corporation's launch of a new web site, www.economicinclusion.gov, to facilitate access to the survey report and results, provide a mechanism to compare results by region, metropolitan statistical area ("MSA"), and state, and highlight initiatives currently being undertaken to promote access to mainstream banking.

During the discussion that followed, Committee members were universally complimentary of the Corporation's work in conducting the Household Survey and reporting on the findings and raised a number of questions regarding survey results. In response to a question from Mr. Steel as to whether the results presented any unexpected surprises, Ms. Ryan expressed surprise that about half of unbanked households were previously banked and that of the previously banked households, 28 percent had become unbanked during the previous year, the reasons cited for using AFS, and the significant variations in the number of unbanked, demographically and by MSA; Yasmin Osaki, Special Assistant to the Deputy to the Vice Chairman, indicated surprise at the finding that previously banked households were more likely to open a bank account in the future; and Vice Chairman Gruenberg expressed surprise at the reasons given by previously banked households for not currently having an account, noting that the bottom line was the issue of cost and affordability.

Committee Members also offered a number of comments and suggestions. One of the central themes of comments, expressed in one form or another by Ms. Wright, Messrs. Ryan and Grzywinski, Professor Tufano, Committee Chairman Taylor, and Vice Chairman Gruenberg, was that consumers tend to act in a manner consistent with their best interests; that survey results clearly show that financial reasons are the ones most often cited as an explanation for AFS use by the unbanked and underbanked, and therefore, being in the banking system may not be the best fit based on their finances; that banks, which also act in a manner consistent with their best interests, have cited regulatory burden and cost as factors in offering services and products that meet the needs of

the unbanked; and that perhaps the solution to providing efficient, cost-effective products and services to the unbanked and underbanked lies in moving away from a bank-centric approach and toward development of a system that meets their financial needs, which may or may not include banks, and more uniform regulation of all financial services providers. However, Mr. Boston observed that the issue was not merely having a bank account, but having an account that increases in size over time, and that insured financial institutions are more uniquely positioned to provide savings products than non-bank entities, an observation with which Vice Chairman Gruenberg agreed.

Vice Chairman Gruenberg also indicated that there were two issues with respect to the unbanked and underbanked: one related to access for unbanked households, and the other related to how banks service existing accounts for households that are fully banked or underbanked. Viewing the issue from another perspective, Committee Chairman Taylor said that it was important to determine how the previously banked and underbanked actually use the banking system. Addressing the issue of bank costs, Mr. Beck suggested that perhaps the Committee should look at the cost basis of various products to determine which products banks can offer on a competitive basis, and Mr. McDonald suggested that, in his opinion, removing regulatory impediments and developing regulatory incentives, such as the Community Development Financial Institution ("CDFI") Program, would reduce the costs to banks of offering products and services to the unbanked and underbanked.

Among the suggestions offered were those by Mr. Boston to brief national and state policymakers, including members of the Congressional Black Caucus, the Latino Caucus, and state legislators, on the survey results to better inform policy decisions related to this segment of the population, with Mr. Boston and Professor Fuchs expressing particular concerns about state policies that place restrictions on savings as a condition of public assistance; by Professor Tufano to review research conducted by the Consultative Group to Assist the Poor to identify alternatives to traditional financial products that may better meet the needs of the unbanked and underbanked; and by Professor Fuchs to explore in future surveys the extent to which rules applicable to recipients of public assistance contribute to being unbanked and ways to encourage banks to provide services needed by the unbanked and underbanked.

Chairman Bair, having listened to the discussion, expressed confidence in the Committee's unique qualifications to assist the Corporation in identifying accounts for lower income households that are cost effective from the perspective of both consumers

and insured financial institutions. She also expressed a willingness to determine whether there exists the flexibility to address any regulatory costs and obstacles identified by the Committee. Acknowledging that a bank account may not be economically suitable for everyone, she nevertheless offered the opinion that the banking industry could do a better job of bringing the unbanked into the banking system in a way that is mutually beneficial, a process that would be facilitated by looking at what works for the significant majority of individuals who do have banking relationships. Finally, she underscored the desire to further explore the extent to which technology, such as cell phones, could be utilized to increase access to the banking system and lower costs.

Committee Chairman Taylor then announced that the meeting would briefly recess. Accordingly, at 10:41 a.m., the meeting stood in recess.

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The meeting reconvened at 11:05 a.m. that same day, at which time Ms. Ryan briefed the Committee on the key findings of the two-part *FDIC Study of Bank Overdraft Programs* ("Overdraft Study"), released in November 2008, the first part of which involved on-site surveys on the characteristics, features and fees of overdraft programs at 462 FDIC-supervised institutions (out of a study population of 1,171 such institutions) and the second part of which involved the collection of 12 months of micro-data account- and transaction-level data from a subset of 39 of the institutions. She identified some of the findings of the survey of overdraft programs as follows: 41 percent of all surveyed institutions had automated overdraft programs as compared to 77 percent of large banks (those with assets more than \$1 billion); three-quarters of banks with automated overdraft programs enrolled customers automatically; most banks (73 percent) established limits on overdraft advances, with a median limit of \$500; the median fee charged for overdrafts was \$27, ranging from \$25 for small banks (those with assets under \$250 million) to \$30 for larger banks, in contrast to a median fee of \$5 for a linked account overdraft; and most (81 percent) banks allow overdrafts for ATM and point of sale ("POS")/debit transactions, with over half only notifying customers of ATM overdrafts after completion of the transaction and 86 percent only notifying customers of POS/debit overdrafts after completion of the transaction. With respect to transaction processing practices and bank earnings from fees, she indicated that one quarter (24.7 percent) of all surveyed banks process transactions in the order of largest to smallest, with 54 percent of large banks processing transactions in that manner; and that almost

three quarters (74 percent) of service charges on deposit accounts were related to fees for non-sufficient funds ("NSF"), with 90 percent of NSF-related fees attributable to banks with automated overdraft programs.

Turning to key findings of the micro-data collection, Ms. Ryan advised that the order of transactions leading to overdraft fees, from highest to lowest, were POS/debit transactions (41 percent), checks (30 percent), automated clearinghouse ("ACH") payments (14 percent), and ATM transactions (7.8 percent); that the median size of transactions leading to overdraft fees was \$20 for POS/debit transactions, \$56 for checks, \$60 for ATM transactions, and \$78 for ACH payments; that 25.7 percent of accounts in the micro-data banks had NSF activity during the 12-month reporting period; and that 68 percent of overdraft fees were paid by customers who had overdrawn their accounts 20 or more times, 90 percent were paid by customers who had overdrawn their accounts at least 10 times, and 95 percent were paid by customers who had overdrawn their accounts at least 5 times. She then pointed out that customers who overdrew their accounts 20 times or more per year, 10 to 19 times per year, and five to nine times per year, paid overdraft fees in the aggregate of \$1,610, \$451, and \$215, respectively.

Concluding her briefing on the Overdraft Study, Ms. Ryan noted that by linking customer account zip codes to Census tract income information, the study team was able to discern that those living in lower income areas were more likely than others to have repeat overdraft activity, with 30 to 40 percent of such customers having at least one overdraft, compared to 20 to 26 percent for those in higher income areas. She further noted that young adults were more likely (46 percent) to have at least one overdraft than those aged 26 to 61 (32 percent) and those over 62 years of age (31 percent).

Next, Roberta K. McInerney, Deputy General Counsel, Consumer and Legislation Branch, Legal Division, provided an overview of regulatory activity related to overdraft programs, advising that the Corporation and other Federal banking agencies in 2005 issued *Joint Guidance on Overdraft Protection Programs*, which was still in effect, to encourage banks to engage in responsible administration and disclosure practices related to such programs and that the guidance set forth a number of expectations addressing safety and soundness considerations and legal risks, in addition to a prescribed set of best practices related to marketing and communications with consumers and program features and operation; that the FRB, in November 2009, had issued a final rule amending its Regulation E to limit the ability of financial institutions to assess overdraft fees for paying ATM and one-time

point of sale transactions that overdraw a consumer's account, with an effective date of July 1, 2010, for new customers and August 15, 2010, for existing customers; and that the FRB, in January 2009, had amended its Truth in Savings regulation to require all banks to disclose on each periodic statement the total dollar amount of all overdraft fees imposed on a deposit account, including disclosure of the fees for the calendar year to-date. With respect to the 2005 guidance and the more recent regulations, she stated that the Corporation expects banks to follow the practices identified as integral to prudent risk management of overdraft program activity, to comply with applicable consumer protection laws and regulations, and to operate overdraft programs in a manner that does not jeopardize safety and soundness. She then provided an overview of recent legislative developments related to overdraft programs, informing the Committee that Senator Christopher Dodd, Chairman of the Senate Banking Committee, had in October 2009 introduced legislation, *The Fairness and Accountability in Receiving (FAIR) Overdraft Coverage Act (S.1799)*, to prohibit depository institutions from charging more than one overdraft coverage fee per month to an account and more than six such fees in a calendar year and to prohibit a non-sufficient fund fee for any ATM or debit transaction, and that Congresswoman Carolyn Maloney had, also in October 2009, introduced similar legislation, the *Overdraft Protection Act of 2009*, that includes an opt-in requirement for all overdraft coverage.

Chairman Bair observed that there is a clear connection between regulatory policies on overdraft programs and the Corporation's efforts to encourage small-dollar lending, noting that under the 2005 *Joint Guidance on Overdraft Protection Programs*, institutions should be monitoring for excessive use of such programs and explaining to customers the availability of lower-cost credit alternatives.

A discussion followed in which Committee members discussed regulatory compliance costs for new overdraft program rules, with Mr. McDonald and Ms. Wright particularly noting that many community banks know their customers and do not have a formal program that charges for overdrafts on a per check basis; the need for financial education programs, with Mr. Boston suggesting that consumers, particularly young consumers, seem unaware of the long-term, adverse impact on financial stability resulting from bounced checks or loan default, and Professor Fuchs and Mr. Eakes suggesting in the short-term, until consumers are educated about certain products and the potential cost to their long-term standing, one solution would be to return to rejecting overdrafts at the point of service; and the Committee's general goal of bringing the unbanked and underbanked into the mainstream

financial system, with Chairman Bair, Vice Chairman Gruenberg, and Mr. Eakes expressing agreement that the goal needs to be defined within the context of affordable and responsible products and in a way that addresses the inappropriateness of excessive overdraft fees.

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

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The meeting reconvened at 1:35 p.m. that same day, whereupon Ellen W. Lazar, Senior Advisor to the Chairman for Consumer Policy, before introducing the next panel, provided an opportunity for Committee members to offer any additional thoughts regarding earlier panel discussions. In response, Mr. Grzywinski offered for consideration the following three suggestions: that the FDIC develop a standard brochure, required to be offered by all banks, outlining the potential abuses of overreliance on overdraft programs; that the regulatory agencies require in the written materials provided to consumers who elect to participate in overdraft programs some type of warning, analogous to the warning on cigarettes, alerting consumers to potential pitfalls; and that there be a requirement for a peel-off sticker on newly issued debit cards, referring consumers to written materials that detail the potential costs of overdraft programs. Ms. Lazar, after thanking Mr. Grzywinski for his suggestions, identified as the goal of the afternoon session the development of a strategic plan for the Committee to help achieve the broader goal of decreasing the numbers of unbanked and underbanked in the U.S. and increasing participation in the mainstream financial system. She then opened the floor for reports on the activities and recommendations of the various work groups.

Mr. Barr, Chairman of the Transactional Accounts Work Group, noted that the objective of the group is to identify sound financial products and services to meet the needs of low- and moderate-income ("LMI") consumers, with a particular focus on the suite of transactional needs, such as receiving salary payments, storing funds, paying bills, and short-term emergency savings vehicles. He then shared some of the potential policies and projects on which the group was able to reach consensus, including identifying existing financial sector innovations, both domestically and internationally, that could be more widely employed to serve the needs of LMI households; developing a set of best practices or a prototype suite of LMI transactional products; holding a forum to consider ways of partnering with

other federal and state government agencies to expand electronic benefit programs beyond the function of merely delivering benefits into a more functional suite of products and services; and identify initiatives that the Corporation can undertake, under its own authority or jointly with other agencies, to improve the way that financial services are offered to LMI households.

During the ensuing discussion, Ms. Lazar expressed interest in the possibility of research regarding potential delivery of financial services via mobile phones and prepaid cards and Committee Chairman Taylor expressed interest in research into the products and services that are actually useful to and used by LMI households and which kinds of institutions are best situated to provide those products and services. Mr. Beck, reiterating a recurring theme, stated that embedded in the research should be the need to achieve a balance between determining which products and services represent a good deal for consumers and are sustainable for suppliers. Mr. Grzywinski suggested the possibility of a competition to generate innovative ideas on ways to marry banking and technology to deliver financial services to the unbanked and underbanked. Mr. Eakes expressed interest in determining the feasibility, particularly with respect to any regulatory barriers, of a bank acquisition of a check casher, with the goal being to deliver FDIC-insured savings products directly through an established system that has already worked out how to process transactions for the target population profitably and conveniently, which led into a discussion of lessons learned from the acquisition of Nix Check Cashing (Carson, California) by Kinecta Federal Credit Union (Manhattan Beach, California).

Next, Mr. Boston, on behalf of Professor Tufano, Chairman of the Savings Work Group, advised that the objective of the group is to provide consumers, particularly those who are LMI and underserved, with convenient and safe ways to save that are also attractive to and feasible for mainstream financial institutions to offer, with the group deciding to focus primarily on short- and mid-term savings. He further advised that the group had identified the following potential policies and projects: launching a research project to determine a "base level" of savings, particularly for LMI households; creating and promoting national savings goals; defining and promoting a template for desirable savings products and conducting a symposium to highlight results; developing benchmarks for the costs incurred by banks in offering savings products to LMI households; and considering guidance to make CRA more meaningful to banks that offer appropriate savings products to LMI savers. In reaction, Professor Fuchs reiterated the need to take into consideration

any prescribed limits on savings for LMI individuals receiving state assistance benefits.

Mr. Shepherd, on behalf of Mr. Fish, Chairman of the Financial Literacy Work Group, the objective of which is to examine current financial education delivery and research efforts and consider recommendations to improve dissemination of existing financial education resources and strategies, then reported on the outcome of the group's collaboration, advising that the group had devised a three-part strategy: collection and dissemination of information, identification of opportunities for further research to target gaps in existing information, and identification of specific recommendations within the Corporation's jurisdiction. He then enumerated specific potential policies and projects agreed to by the group, including determining the feasibility of calculating the return on investment for financial education activities; examining education efforts over the past 25 years to determine best practices beyond the banking industry; exploring the possibility of disseminating financial education best practices not just to the financial services industry, but to a broader array of practitioners; considering development of a certification program for those providing financial education; and exploring the possibility of assigning credit or greater weight for financial education activities during CRA examinations.

During the discussion that followed, Committee members, Board members, and staff touched on a number of topics, including the need to identify core financial competencies, with the FDIC and other government agencies working in concert to promote a nationwide campaign; the need to include mandatory financial education in school curricula, with appropriate teacher training; the importance of developing a standard set of criteria against which to assess the quality of financial literacy programs; and, with respect to any CRA credit offered for bank development and implementation of financial education programs, the importance of allowing such credit only for outcome-based efforts rather than for the number of participants enrolled in such programs. Chairman Bair and Vice Chairman Gruenberg expressed particular support for the suggestion that the Corporation follow up with the Department of Education and the Treasury Department to spearhead efforts to place more emphasis on inclusion of financial education in the nation's school systems.

Then, Mr. Grzywinski, Chairman of the Incentives Work Group, reported that the group's objective is to encourage banks to lend and invest in LMI communities and to offer responsible loan and deposit products to LMI individuals and families, and that potential policies and projects identified by the group include

the following: enhanced CRA incentives through possible changes to CRA test criteria and adjustments to CRA assessment areas; support for CDFIs, including CRA credit and bank adoption of CDFIs; and a possible FDIC Chairman's Award Program. Regarding enhanced CRA incentives, he suggested that there be an increase in the weight on the lending test of affordable short-term small dollar loans; that a change be made to the large bank service test to focus more attention on community development services such as asset building and transaction services, particularly those performed in partnership with non-profits; that the intermediate small bank community development test be clarified by adding specific factors to cover low-income asset building; that the small bank rating criteria be changed to explicitly include a performance factor that considers asset building and affordable lending in savings products in LMI customers; that standards be adopted to ensure that CRA credit is given only for beneficial products, with a penalty for harmful products; and that the CRA Q&As be expanded to make it clear that institutions will get little or no CRA consideration for products that may be inconsistent with helping to meet the convenience and needs of community service areas. As examples of products that do not seem beneficial or help meet credit needs in a responsible manner, he cited loans to individuals without the capacity to repay or loans resulting in repeated renewals, extensions, or fee payments. Regarding specific recommendations for adjustments to CRA assessment areas, he suggested that consideration be given to requiring large institutions to include more than the area around their headquarters in their designated assessment areas, and that consideration be given to community development, investments, loans, and services outside of a bank's assessment area if they are especially tailored to meet the needs of LMI individuals. Observing that CDFIs are organizations that are really working in LMI neighborhoods, Mr. Grzywinski indicated that it would be extremely helpful to provide CRA credit for banks that invest in such organizations and encouraged banks' adoption of CDFIs through provision of financing, lending expertise, and other support. Elaborating on the recommendation for a Chairman's Award, he suggested that such awards might be presented at an annual awards dinner and could recognize noteworthy activities in a variety of CRA categories as well as banks that are involved with CDFIs. Finally, he recommended exploring new incentives for banks with outstanding ratings, citing as an example the possibility of encouraging the Treasury Department to make an award under its Bank Enterprise Award Program for excellence in serving the most difficult LMI segments of the community.

Ms. Lazar, noting that the CRA was enacted in 1977 and last underwent a major review in 1995, with the market having changed significantly since then, stated that the recommendations made by

the Incentives Work Group offered great potential for a more current CRA review to determine how to more effectively address the issues associated with economic inclusion.

Ms. Lazar then announced that the meeting would briefly recess. Accordingly, at 2:56 p.m., the meeting stood in recess.

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The meeting reconvened at 3:23 p.m. that same day, whereupon Ms. Lazar requested a report from the last of the working groups, the Affordable Credit Work Group.

Mr. Murphy, Chairman of the group, advised that its objective was to attempt to identify a way to stimulate the availability of affordable credit in a responsible way and to ensure that it is, in fact, profitable for financial institutions. He noted that the group had reviewed the results of the Corporation's SDL Pilot and met with several of the pilot participants to discuss their successes. He then asked Rae-Ann Miller, Special Advisor, Division of Insurance and Research, to provide an overview of the group's October 22, 2009, meeting and the subsequent policies and practices identified by the group for presentation to the larger Committee.

With respect to the October 22 meeting, Ms. Miller reported on a summary of the SDL Pilot results and that participants in the meeting included financial institutions involved in the SDL pilot, state and federal agencies, nonprofit organizations, and small-dollar loan companies. These participants provided information regarding their loan features, underwriting and processing guidelines and program results; reports included summaries of the CreditPlus product offered by BankPlus, Jackson, Mississippi; small-dollar loan programs offered by Main Street Bank, Kingwood, Texas, Amarillo National Bank, Amarillo, Texas, and Liberty Bank, New Orleans, Louisiana; ; the Credit Union Better Choice program sponsored by the Pennsylvania Credit Union Association; the Employee Loan Benefit Program proposed by Employee Loan Solutions; the Clear Card product, implemented by eDuction; the Virginia State Employee Loan Program offered through a partnership between the Virginia State Employee Assistance Fund and Virginia Credit Union; the Common Sense Financial Initiative implemented by nonprofit group MACED; the microlending platform implemented by nonprofit group ACCION Texas; small dollar kiosk lending implemented by Progreso Financiero; and the peer-to-peer lending platform, Prosper.com. Additionally, she reported on the Department of Defense's presentation about their holistic approach to improving the financial well-being of service member households to ensure

military readiness. She further reported that, after considering the various programs and products, meeting participants identified several potential strategies to scale the availability of small dollar credit. She identified those strategies as increasing the scale of small-dollar loans by, among other things, disseminating the results of the SDL Pilot, with particular emphasis on the finding that default rates for program loans were almost identical to those for unsecured loans generally; testing new models as alternatives to existing relationship-building models, particularly models that result in cost reductions, such as employer-based models; encouraging partnerships between banks, government agencies, and non-profit organizations; promoting the use of guarantees to offset bankers' fear of costs of entry and default; and exploring more flexible regulatory treatment of small-dollar loans. Mr. Murphy then advised that the work group had developed the following potential policies and projects to stimulate the availability of affordable credit to LMI consumers: build a national effort to acknowledge and brand existing programs by establishing an acceptable prototype for small dollar lending and developing a promotional campaign, leveraging existing funds, whether philanthropic or government, to provide loan guarantees for small-dollar loan programs, and publicly closing out the SDL Pilot in a celebratory way that is supportive of participants; consider a pilot small-dollar loan program using federal employees to test an innovative business model; perform research on issues related to affordable credit; and provide positive CRA consideration for affordable and responsible small-dollar loan programs. He acknowledged, however, that it would be inappropriate for the FDIC to endorse specific companies or products for conducting a pilot program using federal employees.

Professor Fuchs suggested that, in closing out the SDL Pilot and identifying a standard for acceptable small-dollar loan programs, consideration should be given to analyzing the characteristics of the program itself as well as the characteristics of the institutions to determine whether there are certain commonalities to indicate which type of institutions value which programs.

Chairman Bair, summarizing her thoughts on the meeting presentations and discussions, noted that the SDL Pilot and the work of the Committee and work groups have provided a number of successful models for small-dollar loan programs; that the 2005 *Joint Guidance on Overdraft Protection Programs* is fairly explicit that institutions should be monitoring usage of such programs; and that, in instances of chronic use, if it becomes necessary on a case-by-case basis for institutions to provide customers with alternatives, the Corporation has identified a

number of existing and proposed models. She also observed that some of the models appear to provide the potential to be profitable, with low risk of default, particularly the employer-based programs that provide loans as a benefit to employees and the programs that require large deposits of loan proceeds security for the loan.

Vice Chairman Gruenberg expressed his opinion that the meeting had been very productive, with the Committee having identified a set of issues that are consistent with the results of the Household Survey, such as the need for appropriate and affordable transaction accounts, savings and asset building products, and financial education programs for LMI consumers and incentives for financial institutions to meet those needs. He stated that it was his hope that the Committee could move forward to identify specifics in each of those areas and an action plan that could be implemented over the next year or so.

Ms. Lazar then advised that the next step was for Corporation staff, in conjunction with the individual work groups, to refine the conclusions of the meeting into a single document, share it with Committee members by mid-January 2010, and begin operating from a strategic plan that better aligns some of the suggestions to ensure that the work groups are operating in a uniform manner.

There being no further business, the meeting was adjourned.

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance
Corporation
And Committee Management Officer
FDIC Advisory Committee on Economic
Inclusion

December 2, 2009

Minutes
of
The Meeting of the FDIC Advisory Committee on Economic Inclusion
of the
Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

December 2, 2009 - 8:45 A.M.

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

Diana L. Taylor
Chairman
FDIC Advisory Committee on Economic Inclusion

Dated: 03/18/2010