

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
November 16, 2010 - 8:52 A.M.

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

The members of ComE-IN present at the meeting were Diana L. Taylor, Committee Chairman and Managing Director, Wolfensohn & Company, L.L.C., New York, New York; Michael S. Barr, Assistant Secretary for Financial Institutions, U.S. Department of the Treasury ("Treasury"); Ted Beck, President and Chief Executive Officer ("CEO"), National Endowment for Financial Education; Kelvin Boston, Executive Producer and Host of PBS' *Moneywise with Kelvin Boston*; Martin Eakes, CEO, Self-Help/Center for Responsible Lending, Durham, North Carolina; Alden J. McDonald, Jr., President and CEO, Liberty Bank and Trust, New Orleans, Louisiana; Manuel Orozco, Senior Associate at the Inter-American Dialogue, and Senior Researcher, Institute for the Study of International Migration, Georgetown University; J. Michael Shepherd, President and CEO, Bank of the West and BancWest Corporation; and Peter Tufano, Sylvan C. Coleman Professor of Financial Management, Harvard Business School, and Senior Associate Dean for Planning and University Affairs. Lawrence K. Fish, Former Chairman and CEO, Citizens Financial Group, Inc.; Ester R. Fuchs, Professor, School of International and Public Affairs, Columbia University; Bruce D. Murphy, Executive Vice President and President, Community Development Banking, KeyBank National Association; and Deborah C. Wright, Chairman and CEO, Carver Bancorp Inc., New York, New York, participated in the meeting by phone. Committee members Wade Henderson, President

and CEO, Leadership Conference on Civil Rights, and Counselor to the Leadership Conference on Civil Rights Education Fund; Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen AME Cathedral of New York; Rebecca W. Rimel, President and CEO, The PEW Charitable Trusts; John W. Ryan, Executive Vice President, Conference of State Bank Supervisors; and Robert K. Steel, Deputy Mayor for Economic Development, The City of New York, New York, 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, Corporate, Consumer, Insurance, and Legislation Branch, FDIC Legal Division, also was present at the meeting. Corporation staff who attended the meeting included George C. Alexander, Michael J. Barry, Heather L. Basnett, Michael W. Briggs, Luke H. Brown, Richard A. Brown, Karyen Chu, Glenn E. Cobb, Patricia B. Devoti, Robert E. Feldman, Janet R. Gordon, Leneta G. Gregorie, Tray Halverson, Greg Hernandez, Sally J. Kearney, Kenyon T. Kilber, Michael H. Krimminger, Alan W. Levy, Ellen W. Lazar, Rae-Ann Miller, Janet V. Norcom, Luke W. Reynolds, Sherrie Rhine, Barbara A. Ryan, Kimberly Stock, James C. Watkins, and Cathie A. Wright.

Committee Chairman Taylor opened and presided at the meeting. She began by welcoming ComE-IN members and providing an overview of the meeting agenda. Next, Chairman Bair announced that Elizabeth Warren had resigned her Committee membership to concentrate on her new responsibilities as Assistant to the President and Special Advisor to the Secretary of the Treasury on the new Consumer Financial Protection Bureau ("CFPB"), and expressed thanks to Ms. Warren for her outstanding service during her tenure on the Committee. She then provided a brief update on past initiatives of the Committee.

Chairman Bair recalled that the Committee had previously discussed whether the FDIC would consider conducting a pilot to help identify best practices of banks offering safe and low-cost transaction and savings accounts, particularly those responsive to the needs of underserved and unbanked consumers, and reported that the FDIC Board of Directors had approved the pilot and Committee-reviewed transaction and savings account templates. She then advised that, as the result of the ensuing application process, nine applicants had been selected to participate in the pilot and announced that the nine pilot banks were Bath Savings Institution, Bath, Maine; Cross County Federal Savings Bank, Middle Village, New York; First State Bank, Union City,

Tennessee; Liberty Bank and Trust, New Orleans, Louisiana; Pinnacle Bank, Lincoln, Nebraska; South Central Bank, Glasgow, Kentucky; Webster Five Cent Savings Bank, Webster, Massachusetts; Citibank, National Association, Las Vegas, Nevada; and ING Bank, FSB, Wilmington, Delaware. She further advised that each of the nine pilot banks had agreed to offer accounts consistent with the recommended templates and provide quarterly data about enrollment, usage, and account costs, which would allow aggregation of the data and sharing of results with other banks that have an interest in offering similar accounts.

Chairman Bair next announced that the FDIC, consistent with past advice of the Committee, had just entered into an historic partnership agreement with the U.S. Department of Education ("DOE") and the National Credit Union Administration ("NCUA") to promote financial education and financial access among youth in the United States, with the agreement calling for the FDIC and the NCUA to support DOE in training more than one million low-income students in the basics of personal finance and sound financial practices. She expressed excitement about the program, optimism that the agreement would lead to more financial institutions partnering with schools, and, noting the FDIC's history of support for financial education through its Money Smart curriculum, a belief that the partnership would provide the FDIC with additional data on the impact of the curriculum on financial behavior. Concluding her remarks, Chairman Bair indicated an interest in hearing the Committee's views about other concrete steps the FDIC can take to advance children's savings accounts and related literacy issues. She then turned the discussion over to Professor Tufano.

Professor Tufano, noting the current sense of urgency around the rethinking of consumer financial rules and regulations and the establishment of the CFPB, introduced the concept of using market research to inform the regulatory agenda. To illustrate the concept, he briefed the Committee on the results of a national, internet-based study of Americans he conducted in October 2010 in conjunction with TNS, a global market research firm, to measure overall satisfaction with financial regulation and identify what he referred to as regulatory "pain points." Regarding overall satisfaction with financial regulation, he advised that the study asked the degree to which respondents think their household financial interests are currently protected by laws and regulations and that 46 percent of respondents indicated they were appropriately protected, 28 percent indicated they were not appropriately protected, and 27 percent indicated they were neither appropriately nor not appropriately protected. He further advised that among the 28 percent of respondents who reported feeling less well protected, one could add 6 to 11

points for those who say they carry some debt; 16 to 25 points for those who say they are over-indebted; 11 to 12 points for those who indicate they would be unable to raise \$2,000 within 30 days; 7 to 8 points for those who use mortgage products; 5 to 9 points for those who carry credit card balances; and 7 to 8 points for those who use alternative financial services ("AFS") products. Regarding regulatory pain points, he reported that respondents were most dissatisfied, in order of priority, with fees on credit cards, interest rates charged on credit cards, terms on credit cards, the level of fees on overdraft protection, activity to identify and stop fraudulent investments and their promoters, and dealing with fraudulent lenders.

Chairman Bair asked whether mortgages were one of the financial product categories included in the study, in response to which Professor Tufano stated that they were included; that mortgages fell somewhere in the middle of products with which respondents were most and least dissatisfied; and that, among mortgage-related issues, respondents were most dissatisfied with negotiating mortgage modifications, followed by terms of home mortgages and shopping for and comparing mortgage offers.

Next, Professor Tufano provided context for the panel presentations on children's savings accounts, noting that approximately 4.3 million children are born each year in the United States; that about 20 percent of children are members of poor families, with about one-third of Black and Hispanic children living in poverty; that, when discussing the possibility of establishing universal savings accounts, it is important to be cognizant of reaching the 20 to 25 percent of children born into less than ideal circumstances and to take into account the mobility of the U.S. population; and that a variety of theories underlie the logic of children's savings accounts, including starting the savings habit early to employ the power of compound interest, supporting asset building, addressing the issue of intergenerational transmission of poverty and opportunity, and getting children into what he referred to as the "plumbing system" of the financial world as a jumpstart to encouraging financial literacy and other savings. He then introduced his fellow panelists, José Cisneros, Treasurer for the City and County of San Francisco; Robert A. Annibale, Global Director, Citibank Microfinance and Community Development; Katryn Gabrielson, Deputy General Counsel, Finance Authority of Maine; and Robert Friedman, General Counsel, Founder, and Chairman of the Board, CFED.

Mr. Cisneros, after underscoring San Francisco's commitment to financial empowerment programs, including the city's Bank On San Francisco program and its Payday Plus SF program, provided

background on a more recent initiative, the soon-to-be launched Kindergarten to College ("K2C") program. He explained that it would be the first universal child savings account program, that it would be administered by reaching out to children enrolled in the public school system, and that San Francisco is well-suited for such a program because it has the lowest number of children per capita of any major city in the nation; it has a significant percentage of children living in poverty; it has a school system that is incredibly diverse, with a large immigrant population; and nearly 70 percent of its public school graduates enroll in post-secondary education. Pointing to studies that show that children with any amount of money saved for college are many times more likely to attend college than those who have saved no money, he identified as the goals of the program creating a college-going culture, reducing exclusion from the financial mainstream, increasing financial literacy, and leveraging private investments in San Francisco families.

Next addressing program design, Mr. Cisneros advised that it included automatic enrollment, universality, and a publicly funded seed deposit, with each child entering kindergarten in a public school receiving an account with an initial deposit of \$50 and an additional \$50 for children eligible for the free and reduced lunch program; opportunities for matched savings and incentives through private funding sources; a range of deposit options; and financial education for the children and their families. He then identified as some of the program challenges obtaining the information necessary for auto-enrollment, which was mitigated by working with the school system; finding financial providers willing to administer large numbers of small dollar accounts, which was solved through a partnership with Citibank; and the local budget climate, which served as an impediment to getting the program approved. As for account structure, Mr. Cisneros indicated that the City would establish an escrow account with its own tax identification number, with subaccounts for each child; that signed consent forms would be obtained from parents to gain access to the information necessary to manage incentives; and that the City would assume responsibility for tracking incentives and matches. He further indicated that the K2C program has a phased rollout. Concluding his remarks, he identified some of the key program partners, including the Mayor's and Treasurer's offices, the Department of Children, Youth and Families, and the San Francisco Unified School District; non-profit organizations such as EARN, CFED, and the New America Foundation; and research and evaluation partners from Stanford University. Although acknowledging the challenges ahead, Mr. Cisneros said that he looked forward to working with regulators and financial institutions and to successful evolution of the program.

Mr. Annibale began by emphasizing Citibank's extensive history of philanthropic work in the area of matched savings programs and noting that, while many of these efforts have produced positive outcomes, these efforts have not been financially sustainable and have not reached the hoped for scale. He stated that, as a result, Citibank set out to develop a banking platform that would support large-scale, lower-size, low-cost, but very accessible transactions for student initiatives, with the development effort leading to a new Custodial Account Structure that allows for universal or wide-scale enrollment, with the program sponsor determining eligibility for enrollment and the program administrator handling enrollment; provide simple account management and incentive tracking, with on-line access by participants to their individual accounts; offer easy-to-build savings, with the option to make deposits at Citibank branches or via direct deposit, wire transfers, or mail; and engage students interactively through technology to keep them active over a period of time. Observing that there are a number of players in the program model, Mr. Annibale identified those players as the bank, which provides the product, the platform and the technology that houses the accounts and provides easy access through a customized website; the schools, which have primary responsibility for engaging students and parents; the administrator, which opens and manages the accounts and program guidelines; and the custodian, which owns the accounts, with the administrator and custodian sometimes being the same entity. He then advised that the next steps in the student account process are enrollment of students and starting to save, with the best way of reaching large numbers of children being through school systems; learning to save through incentives, competitions, games, and awards built into the school curriculum; and, ultimately, enrollment of participants into college, at which time participants gain access to their funds.

In conclusion, Mr. Annibale expressed confidence that the Custodial Account Structure is one that offers easy opening, scale, and a low enough operating cost to be attractive to other organizations. He said that, in fact, since the City of San Francisco had announced its program, Citibank has already received interest from other cities and school systems. Advising that the website, www.mysavingsaccount.org, would soon go live, he expressed hope that it will be the basis for building tens of thousands of accounts in a relatively short period and establishing a good partnership between Citibank and program sponsors.

Ms. Gabrielson then briefed the Committee on the Harold Alfond College Challenge ("Challenge") administered by the

Finance Authority of Maine ("FAME") for the Alford Scholarship Foundation ("Foundation") through NexGen. She explained that Challenge is a legacy gift of \$500 toward higher education expenses for every Maine resident baby, regardless of family income, and that it is also a challenge to the State of Maine to get all Maine families thinking about the need for and the possibility of higher education. She noted that, if each of 14,000 Maine babies took advantage of the grant each year, the foundation would be funding \$7 million annually. Further explaining the program, she stated that the funds are invested in Maine's Section 529 Plan, that the account must be opened by the baby's first birthday, that the funds are available for qualified education expenses up to age 28, and that additional contributions are encouraged, but not required.

Next discussing some of the program challenges, Ms. Gabrielson advised that getting timely and complete applications is often difficult because some residents think the offer is too good to be true and ignore it, there is often a wait encountered for Social Security numbers after the birth of a baby, the application can be daunting for those with literacy issues, and the one-on-one approach that has proved to be the best for opening accounts is also the most costly. As for how the challenges have been met, she said that FAME has established partnerships with hospitals, physicians' groups, financial advisors, employers, banks, and other institutions that are on the front lines with families to raise awareness about the availability of the grant, especially during the pre-natal stage; that it conducts "casting calls," generally held at malls, offering free professional baby photographs, which is then used as an opportunity to market the program and to assist with completion of applications; that FAME employs the Bureau of Vital Statistics to conduct direct marketing through mailings to families; and that the Foundation works to raise awareness about the advantages of higher education through quarterly brochures on a variety of topics and provides quarterly account summaries to accountholders. Regarding the role of banks, Ms. Gabrielson indicated that they act as a bridge to the investment product, distributing enrollment and Alford materials, and that they often offer matching contributions to employees as an employee benefit or to customers as a customer bonus. She stated that, thus far, the program has seen the enrollment of 7,000 within two years, a take rate of about 40 percent, with 25 percent of those accounts making additional contributions; that there also has been what she described as a sibling side-effect, with families opening accounts for older siblings who were unable to participate in the Challenge but are able to take advantage of other grants; and that FAME hopes to see upwards of 75 percent participation by 2014.

Then, Mr. Friedman stated that he wanted to offer comments on seven topics, which he identified as savings, accounts, lifelong process, incentives, budget, politics, and growth. With respect to savings, he suggested that, given the opportunity, low-income and even very poor people would save for college, to start businesses, to buy homes, and for retirement, not because it was easy, but because they saw it as a way to get ahead; and that, while an average savings of \$10 per month may not sound like a lot, with one-to-one matching, it could equal the cost of two years at a community college. With respect to accounts, emphasizing the importance of auto-enrollment, he indicated there is a need to find a way to default every child into an account, combined with a process to engage them, because the data on financial education show there is little evidence that it works unless it is offered within the context of an account with real money. He suggested that, while the work of the FDIC to ensure that financial institutions and their partners to better understand customer identification requirements for opening accounts has already been helpful, anything it could do to reduce those requirements to make auto-enrollment a possibility and to encourage financial institutions to offer children's savings accounts would have a tremendous impact. With respect to lifelong, he noted that the thinking in Washington is that matched savings accounts are affordable for retirement or for children, but not both. However, he offered his opinion that the two are not in opposition because savings should be a lifelong process, with the way to a secure retirement starting as early as birth.

Regarding incentives, Mr. Friedman advised that there is evidence that opening an account, regardless of the size of the account, has a significant impact; and that some kind of match makes a huge difference in giving people a level playing field and creating real opportunity. Regarding budget, he advised that the Aspire Act, which would create a \$500 account for every child, with an additional \$500 for the poorest half of children, would cost about \$40 billion over 10 years and the expanded savers' credit for adults would cost another \$40 billion, but suggested that those amounts pale in comparison to the size of existing expenditures to provide individual asset-building incentives, such as the home mortgage interest deduction and favorable capital gains treatment, with little evidence that the programs have an actual effect. Regarding politics, Mr. Friedman reported that SEED polls show that, after being educated on the aforementioned proposals, 70 to 80 percent of those polled were supportive. Finally, regarding growth, he shared his belief that, historically, the policies that have generated the most significant, sustainable, and widely-shared increases in economic

well-being have been investments in the common genius, such as universal education, the Homestead Act, creation of the 30-year mortgage, and the GI Bill, and that children's savings accounts and matched savings accounts for adults are such programs.

In the discussion that followed, Committee members asked panelists a number of questions, including questions about the sustainability of programs dependent upon budget approval when a current administration leaves office, plans for program research and evaluation, recommendations for what regulators can do to facilitate children's savings accounts, specific program goals, and mechanisms contemplated for getting parents involved in the savings programs. In response to Mr. Boston's question about what would happen to the K2C program once San Francisco's current mayor leaves office, Mr. Cisneros responded that, while it cannot be said for certain that any program is permanent, the K2C program has generated a tremendous amount of community support, which influences the budget process, and that, although the City's share of current program financing is about 50 percent, the goal is to reduce the City's share in future years by raising more private funding. In response to Committee Chairman Taylor's questions regarding what kinds of mechanisms are in place to evaluate program outcomes, Mr. Friedman responded that a number of ongoing SEED studies on the results of savings initiatives and that the SEED for Oklahoma Kids experiment, which is just beginning, includes random assignment control groups to allow follow-up from birth over the next 30 years, funding permitted. Mr. McDonald suggested that, in addition to examining the high costs associated with maintaining low balance savings accounts, some consideration be given to evaluating cost benefits to provide a fuller picture for financial institutions thinking about offering children's savings accounts.

Answering Mr. Shepherd's questions regarding what regulators can do to facilitate children's savings accounts, Mr. Annibale suggested that, because asset building is an appropriate precursor to accessing credit, regulators should consider allowing credit under the Community Reinvestment Act ("CRA") for such accounts. In response to Vice Chairman Gruenberg's question about the specific goals of children's savings accounts, Mr. Cisneros advised that San Francisco has several goals, including generally creating a supportive environment for families as it pertains to successfully handling their money and knowledge of and access to mainstream financial products, building hopes, and building a college nest egg for each child; and Mr. Annibale advised that most people see the main purpose of such accounts as encouraging and enabling higher education, but that, ultimately, his goal is to empower more people to participate in the economy as producers, not as consumers. In answer to Mr. Beck's question

about mechanisms for parental involvement, Mr. Cisneros indicated that, in addition to contacting parents to provide information on the accounts, San Francisco would be reaching out through its partners to provide financial education classes and through parent-teacher organizations to find out which parents can use assistance and support and, perhaps, would be offering some incentives targeted at parents; and Ms. Gabrielson indicated that simply by requiring an application process rather than setting up auto-enrollment, the Challenge provides an opportunity for active parental involvement.

Committee Chairman Taylor then announced that the meeting would briefly recess. Accordingly, at 10:36 a.m., the meeting stood in recess.

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The meeting reconvened at 10:51 a.m. that same day, at which time Committee Chairman Taylor introduced Barbara A. Ryan, Deputy to the FDIC Vice Chairman, as moderator of the panel discussion on "Underserved Studies."

Ms. Ryan recalled that at the Committee meeting held on December 2, 2009, she had shared the results of the FDIC's first *National Survey of Unbanked and Underbanked Households* ("Household Survey") and that the FDIC had also conducted a companion *Survey of Banks' Efforts to Serve the Unbanked and Underbanked*. She reminded Committee members that both surveys are designed to be repeated approximately every two years and advised that staff currently is in the process of developing a second set of instruments for each survey, incorporating lessons learned from the initial surveys and from the survey results; that the second Household Survey, like the first, would be conducted as a supplement to the Census Bureau's Current Population Survey in June 2011; that the draft revised Household Survey instrument had been published for public comment; and that revisions were being made on the basis of those comments. After noting that panelists would share research that provides a deeper understanding of the behavior of unbanked households, she introduced as her fellow panelists Eleni Constantine, Director, Financial Security Portfolio, Pew Charitable Trusts; Tammy Edwards, Community Affairs Officer, Federal Reserve Bank of Kansas City ("Kansas City FRB"); and Betsy Costle, Director of Consumer and State Affairs, AARP Public Policy Institute.

Ms. Constantine then briefed the Committee on a recent Pew study, titled *Unbanked By Choice*, which she stated was conceived as a complement to Pew's work on banking the unbanked in the Bank On Program and designed to compare the financial behaviors of the banked population to those of the unbanked population. After

summarizing the survey methodology, which she explained involved a randomized approach and two waves of door-to-door interviews in targeted Los Angeles neighborhoods, she launched into some of the high level findings. She advised that, generally, those who operate in a cash only economy and those who are purely banked have more in common with each other than those who use alternative financial services ("AFS"), whether or not they have a bank account, citing as examples findings that those who use only bank services and those who use only cash were more able to save and to remit at a higher level than were those who use AFS, whether banked or unbanked. With respect to comparisons between the banked and unbanked, she advised that more than one-third of the banked and more than two-thirds of the unbanked use AFS; more than twice as many banked than unbanked are able to save for the future; the unbanked say they do not make enough to pay their bills at a higher rate than the banked; both the banked and unbanked express high levels of satisfaction with their financial service providers, with the banked having a high level of trust for banks and credit unions and the unbanked having a high level of trust for check cashers; the banked receive their income mostly by check versus the unbanked who receive their income mostly in cash; and the banked and the unbanked aspire to similar financial goals such as purchasing a home or an automobile and educating themselves or their children. She further advised that use of check cashers is higher among the banked than the unbanked, probably because more of them are paid by check; use of independent money transfer chains for remittances is high for both the banked and the unbanked; and, although budgets were modest in both cases, monthly household expenditures were slightly higher for the banked than the unbanked.

Ms. Constantine cited as other high level findings that about two-thirds of the unbanked have never had a bank account; that the unbanked do not particularly want a bank account because they do not perceive it as useful; that the majority of those who are banked use at least five products or services; that the unbanked report the highest use of their money to pay bills, purchase pre-paid calling cards, and purchase money orders, suggesting that banks are not doing very well in meeting their need for these products and services; that significant numbers of the banked and previously banked reported adverse experiences with banks related to fees for insufficient funds or overdrafts or being charged a fee that they did not understand; and that the primary reasons the previously banked left a bank were because of being charged fees without explanation or because they were treated in a discourteous manner. Noting that the average length of time in the country for the unbanked was about 14 years, versus about 21 years for the banked, she stated that immigrants typically live in the cash economy for the first 15 years, then

move toward use of AFS providers, which places more stress on their budgets, before fully entering the mainstream financial system. She suggested that, to facilitate savings and credit-building among this population, it is important to develop bridge products that allow a transition from a full cash economy to participation in the financial mainstream without going through the AFS phase.

Ms. Edwards then presented the findings of a recently completed focus group research initiative, *The Unbanked and Underbanked Consumer in the 10th District*, which she advised was conducted partially as the result of the FDIC's Household Survey data, showing the growing ranks of the unbanked and underbanked in the states served by the Kansas City FRB. Providing background on the research effort, she said that it included 24 focus groups, 18 conducted in English and six in Spanish, in four cities-Kansas City, Oklahoma City, Omaha, and Denver-with each focus group composed of three to four people. She advised that, demographically, the percentage of unbanked households range from 20 percent in Nebraska to 33 percent in New Mexico, with 26 percent of the district overall falling into the unbanked category and minorities disproportionately represented among the unbanked or underbanked. Defining the characteristics of the unbanked and underbanked focus group participants, she indicated, that they have limited and unstable income, have had bad experiences with bank fees, encountered unexpected fees that reduced their balances, admitted to having inadequate recordkeeping, and have received limited or no financial education, yet still see value in having a relationship with a bank.

Citing key findings of the focus groups, Ms. Edwards advised that the unbanked and underbanked have financial desires similar to the mainstream, including the desire to own a home, have a reliable form of transportation, and save money for their children's education; that their financial behaviors are primarily influenced by their families; that the transparency and finality of financial transactions is extremely important to them; that they express a strong desire to have physical control of their money; that they feel that AFS providers are easier to use; that they share a misunderstanding about fees and how they are assessed as well as about the functional aspects of products and services; and that a savings account is the desired entry point for a banking relationship because they see it as a way to build credit and reach some of their goals. Next, addressing the implications of the research, she suggested that there are several ways regulated financial institutions and financial educators can transition the unbanked and underbanked into relationships with insured depository institutions, namely by

offering low- or no-cost products and services; introducing clarity around the issues of how products and services work, fee structures, and identification requirements; providing greater convenience in the form of longer hours and more ATMs that operate 24 hours a day, seven days a week; and addressing the issue of comfort with more front-line associates who look like the population to be served and speak their language. She also suggested that products and services should be expanded to provide alternatives to payday lenders, check cashers, and pawn shops; that clearly defined second chance programs and problem resolution processes should be implemented; and that financial education should be linked to specific life events such as the purchase of a new home, a new job, or the purchase of an automobile. Ms. Edwards then concluded her presentation by explaining that, as a result of the research, the Kansas City FRB was working with state and city leaders, nonprofit organizations, and lenders throughout the 10th District to launch Bank On programs to offer a suite of products targeted to the unbanked and underbanked; developing culturally relevant workforce initiatives to help lenders increase their front-line workforce of culturally sensitive, bilingual employees; developing targeted financial education; and expanding products and services, from more participation at VITA sites to having more lenders offer remittance services, payroll cards, and small dollar loan programs. She advised that, to determine whether the initiatives are making a difference, the Kansas City FRB plans to repeat its research, likely in 2012.

Next, Ms. Costle briefed the Committee on the AARP's study, entitled *A Portrait of Older, Underbanked and Unbanked Consumers*, explaining that it involved a customized analysis of data from a 2008 survey conducted by the Center For Financial Services Innovation to determine whether patterns of the unbanked and underbanked differed by age. She reported that the analysis showed that older people tended to be more likely to be banked, with either a checking or savings account, with the percentage who are banked increasing with each age cohort; that, as expected, the size of savings accounts varied by income; that older Latinos and Blacks were less likely to have accounts than their White counterparts; that the main reasons given for not having a checking account were costs, substantial concerns about misuse of personal information, and concerns about documentation requirements. With respect to cost, she indicated the concerns, in order of priority, were not having enough money, hidden fees or expenses, accounts are too expensive, and too high a minimum balance requirement. She advised that the reasons for not having an account varied by race, with Blacks and Hispanics most often citing concern about misuse of personal information and Whites most often citing not having enough money for an account to be

useful. Nevertheless, she advised that, overall, older consumers indicate a preference for conducting their financial transactions in a bank or credit union, with supermarkets cited as their second most preferred venue, but noted that older Black and Hispanics showed far less preference for bank and credit unions than their White counterparts.

Continuing, Ms. Costle advised that the research also shows that most people, whether they were banked or unbanked or used AFS, were either very or somewhat satisfied with their financial transactions; that the most often cited reasons for satisfaction were that the transactions do not take much time, helpfulness of staff, fees that were perceived as affordable, or respectful treatment by staff, with the helpfulness of staff most often cited by Hispanics and affordable fees most often cited by Blacks. With respect to borrowing, she explained that as the age groups progressed, people were less likely to borrow, with 27 percent of those aged 45 to 64 and 20 percent of those aged 65 and over reporting borrowing; that Hispanics were the most likely to borrow; that most borrowed one time, but 47 percent of those aged 65 and over with incomes under \$10,000 reported borrowing more than nine times; and that most borrowed under \$1,000, although there were significant variations in amount based on age, income, and employment status. She further explained that personal loans represented the highest percentage of loans in all age groups, with home equity loans representing the second highest percentage for those aged 65 and older and the third highest percentage for those aged 45 to 64; that the number of auto title loans was significant for all age groups; and that the majority of those aged 45 and up preferred to borrow from banks and credit unions, with payday lenders cited as the least preferred source of loans.

In closing, Ms. Costle noted that, although unbanked and underbanked consumers express satisfaction with their financial transactions, AFS providers do not offer a pathway to savings for emergencies, education, or retirement and they do not facilitate borrowing on reasonable terms, opening channels to payday and auto title lenders and precluding relationships with mainstream financial institutions and the building of a credit history. She stated that, for these reasons, it is incumbent upon banks and credit unions to offer products with no hidden fees that keep costs low and to provide valued services, offering as an example the FDIC's pilot for safe and affordable transaction and savings accounts, and indicated that a failure to do so would result in ceding a very large and eventually lucrative market to unregulated providers of financial services.

Mr. Barr asked, given the research findings presented by panelists, what they felt the banking system should look like in terms of meeting the needs of unbanked and underbanked consumers. In response, Ms. Edwards stated that it was important to have front-line associates who are more culturally sensitive and responsive to their diverse populations; Ms. Constantine stated that, while she believes institutions are doing a fairly good job with respect to the savings needs of those populations, she feels that they could do a better job in the areas of lending and transactions, by offering more safe and affordable small dollar loans and introducing more properly structured and regulated card-based systems; and Ms. Costle stated that banks should begin to move towards a card-based transaction system that channels customers into savings and loan products, rather than continuing to operate separate transaction, credit, and savings systems.

During the ensuing discussion, Committee members sought and received clarification on the use of loans taken out by older citizens, the possibility of AARP developing its own transaction card or small dollar loan program, the reasons behind a high degree of concern about misuse of personal information, and the ability of consumers to distinguish among prepaid cards, debit cards, and credit cards. On the latter issue, there was a general consensus that many consumers do not understand the distinctions and that different rules and regulations and fees apply to each product. Mr. McDonald suggested that it would be important to keep this confusion in mind with respect to the FDIC's card-based, safe and affordable transaction and savings accounts pilot. Mr. Boston suggested that the Committee extend an invitation to Ms. Edwards to return at a future date to discuss the recently issued Kansas State mandate for financial education at the high school level, expressing concern over the lack of standards by which states can evaluate various financial education curricula.

Committee Chairman Taylor then announced that the meeting would recess for lunch. Accordingly, at 12:10 p.m., the meeting stood in recess.

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The meeting reconvened at 1:33 p.m. that same day, whereupon Committee Chairman Taylor introduced Ellen W. Lazar, Senior Advisor to the FDIC Chairman for Consumer Policy, as moderator of the "Issues Update" panel.

Ms. Lazar introduced as her fellow panelists Michael H. Krimminger, Deputy to the FDIC Chairman for Policy; George C. Alexander, Assistant Director, Structured Transactions, FDIC

Division of Resolutions and Receiverships ("DRR"); James C. Watkins, Deputy Director, Supervisory Examinations, FDIC Division of Supervision and Consumer Protection ("DSC"); and Roberta K. McInerney, Designated Federal Officer for the Committee and Deputy General Counsel, Corporate, Consumer, Insurance, and Legislation Branch, FDIC Legal Division.

Mr. Krimminger, noting that a number of issues had been raised recently regarding documentation, legal title and related issues for ongoing foreclosures, the mortgage process, and the overall structure of mortgage finance, advised that Chairman Bair and the FDIC have been heavily involved in examining the factual and legal aspects of such issues, with all of them connected in some way to consumer protection, securitization, and the servicing process. More specifically, he identified the issue of robo-signing and whether affidavits were being completed in compliance with legal standards, with the evidence clearly pointing to significant defects in complying with those standards in foreclosures; the securitization process and questions as to whether there was compliance with legal standards for title transfers necessary to proceed with foreclosures; and various other issues associated with title transfers and legal authority to foreclose, including issues related to the mortgage electronic registration system (also known as "MERS"). He advised that, currently, staff is reviewing the facts to gain an understanding of what is actually happening in FDIC-supervised institutions as well as institutions for which the FDIC has joint examination authority. He identified as fundamental issues needing resolution a determination of the extent to which unnecessary foreclosures have occurred due to robo-signing and other defects; the extent of real title defects and a determination of the impact of such defects on the ability to service loans and to proceed with foreclosures; and the extent of faulty foreclosure errors and a determination of whether the errors have been the result of intentional wrongdoing or broad negligence in the marketplace.

Next, Mr. Watkins advised that the FDIC takes very seriously the issue of bank foreclosure practices and robo-signing incidents; that the FDIC expects proper review of loan documents prior to initiating or conducting foreclosure proceedings and maintenance of appropriate policies, procedures, and documentation; and that, the FDIC and other Federal and state regulators fully intend to hold banks responsible for noncompliance with laws and regulations. He further advised that, to determine what specific corrective actions are needed and to identify lessons learned, the FDIC is reviewing mortgage servicing and foreclosure practices through the following processes: participation in joint examinations of foreclosure

and securitization practices of the 14 largest mortgage servicers; participation in interagency examinations to evaluate foreclosure and securitization practices in electronic registration systems; examiner verification that FDIC-supervised servicers do not exhibit problems that have been identified in the largest servicers; DRR review of processes used by servicers of loans subject to loss share agreements and loans from receiverships of failed banks; Legal Division review of a variety of legal issues related to the handling of mortgages and foreclosure actions; and formation of an internal working group, comprised of high-level personnel from a number of divisions, to facilitate information sharing and coordination of assessments of industry risks and exposures. He then distributed to Committee members a fact sheet issued by the White House on October 20, 2010, summarizing the activities of various Federal agencies to support accountability, stability, and clarity in the housing market.

Mr. Alexander then explained that, in addition to having a supervisory interest, the FDIC also has a potential economic interest in many of the issues, especially with respect to loss share agreements, into which it has entered with acquirers of failing banks, noting that the FDIC has executed agreements with 123 banks and has coverage on about \$57 billion in single family residential loans, 50 percent of which are concentrated in five banks. He indicated that, as part of FDIC oversight, each acquiring institution is required to certify whether there are any problems associated with any affidavit defects in the institution's foreclosure process and that larger acquirers must submit to a visit by an on-site team which makes its own determination as to whether there are problems related to the foreclosure processes. He stated that the FDIC has made it clear that to the extent that losses are incurred as the result of flaws or failures in the affidavit or foreclosure process, it will not cover those losses under the loss share agreements. Briefly touching on securitization news, Mr. Alexander reported that the Fitch ratings agency had recently issued a negative watch on all single family residential servicers because of the possible implications of affidavit and foreclosure problems; that Deutsche Bank, the world's second largest trustee, has demanded that all servicers provide it with indemnification for any servicer error in transactions; and that securitization servicers have begun to curtail the amount of delinquent payment advances that they have traditionally made in such transactions.

Supplementing the information shared by Mr. Alexander on securitizations, Mr. Krimminger updated Committee members on regulatory developments in the area of securitization by briefing them on a final rule, effective September 30, 2010, continuing

the safe harbor for financial assets transferred in connection with securitizations and participations in which financial assets were transferred in compliance with existing regulation, but also imposing further conditions for a safe harbor for securitizations or participations issued after a transition period, ending on December 31, 2010.

Ms. McInerney then updated the Committee on matters related to the establishment of the Consumer Financial Protection Bureau ("CFPB"), Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") topics, the FDIC's new Office of Minority and Women Inclusion ("OMWI"), and recent internal reorganization efforts undertaken by the FDIC. Regarding establishment of the CFPB, she advised that it would assume responsibility for most Federal consumer protection law rulemaking on the transfer date, as designated by the Secretary of the Treasury as July 21, 2011; that it will examine and enforce most Federal consumer financial laws for covered non-bank entities; that it has responsibility for examination and enforcement of banks and thrifts (and their affiliates) with assets of more than \$10 billion, with examination and enforcement authority for approximately 46 FDIC-supervised institutions to be transferred to the CFPB; that each of the Federal bank regulatory agencies will transfer some staff to the new agency; that, currently, there are 50 to 60 employees at the Treasury working on gathering information, developing examination and other policies and procedures, securing office space, and creating IT systems for the new agency; and that the CFPB Director will replace the Director, Office of Thrift Supervision, on the FDIC's Board of Directors. She explained, however, that the FDIC and other banking agencies retain under Dodd-Frank authority for CRA, flood insurance, and a handful of other consumer-related laws. Regarding OMWI, she advised that section 342 of Dodd-Frank requires that the FDIC and a number of other agencies establish such an office by January 21, 2011; that the duties of the office are to increase opportunity, diversity, and outreach within each of the agencies, increase participation of minority- and women-owned businesses and programs and contracts with the agency, and develop standards to address diversity policies of entities regulated by the agencies; and that the FDIC is in the early stages of ramping up the office, but fully intends to have it operational by the statutory deadline. Finally, with respect to the FDIC's reorganization efforts, she announced that, in order to ensure that the Corporation is in the best position to carry out its responsibilities under Dodd-Frank, a new Office of Complex Financial Institutions was being established to focus on oversight of bank holding companies with more than \$100 billion in assets and their corresponding insured depository institutions as well as non-bank financial companies designated as

systemically important by the new Financial Stability Oversight Council; and that a new Division of Depositor and Consumer Protection, to be headed by Mark Pearce, was being established to provide increased focus to the FDIC's compliance examination, enforcement, and outreach program.

A question and answer session followed, during which Committee members asked and staff members responded to questions about what specifically is to be included in resolution plans, the potential consequences of not being able to submit a credible resolution plan, the definition of "servicing quality," and best practices in the area of home modifications. Chairman Bair asked Mr. Alexander to elaborate on some of the incentives the FDIC has built into its securitization servicing agreements. Mr. Alexander, in response, advised that the FDIC agreements include pricing that basically pays a dollar price for servicing performing loans; that, if the loans become delinquent, servicers are paid a multiple of that price, giving them the ability to earn additional money for working with defaulted borrowers; that servicers also have the ability to earn a multiple of the basic price on loans for which impending events might trigger a default, giving servicers an incentive to contact borrowers in advance of the triggering event in an effort to resolve any problems before they occur; and that the FDIC has incorporated flexibility into its agreements to allow the sponsor, the FDIC, the master servicer, and the servicer to negotiate changes in the servicing protocols and standards for the transaction in response to changed circumstances.

Ms. Ryan then began the Status Report on Mortgage Work Stream and Other Strategic Plan Projects session. She introduced Michael W. Briggs, Supervisory Counsel, Consumer/Compliance Section, Corporate, Consumer, Insurance, and Legislation Branch, FDIC Legal Division, who, she indicated would provide legislative and regulatory updates regarding mortgages; and Karyen Chu, Chief, Consumer Finance Research Section, FDIC Division of Insurance and Research ("DIR"), who she indicated would share statistics that highlight a significant decline in mortgage originations in properties located in low- to moderate-income ("LMI") census tracts since 2006. Providing background on the Mortgage Subcommittee, Ms. Ryan recalled that it was established at the request of Chairman Bair in Spring 2010; that it is chaired by Mr. Eakes; and that the group's primary goals are to prepare a landscape assessment to determine where we are in terms of the impact of recent legislative and regulatory developments that may affect mortgage terms generally and LMI mortgage terms specifically, and to identify best practices for LMI mortgage lending.

Mr. Briggs then provided an overview of legislative and regulatory developments affecting mortgages, including explanations of new consumer protections; new mortgage loan originator compensation rules, and new standards for the ability to pay and what constitutes a qualified mortgage under Dodd-Frank; the Board of Governors of the Federal Reserve System's ("FRB's") proposed mortgage rules under the Truth in Lending Act, which would require additional disclosures for reverse mortgages, simplification of the right to rescind disclosures, and add a new category of disclosures for loan modifications; the FRB's final rules, effective April 1, 2011, which separately from Dodd-Frank prohibit yield spread premiums, "double-dipping" or receipt of compensation from the consumer and the creditor or another person, and certain steering practices; and final rules issued by the Department of Housing and Urban Development, effective October 4, 2010, which introduce a new credit score threshold for Federal Housing Administration ("FHA")-insured loans and reducing loan-to-value maximums for FHA-insured loan borrowers with credit scores under 580.

Next, Ms. Chu advised that staff had conducted analyses of mortgage features and performance using mortgage servicing data; mortgage originations using Home Mortgage Disclosure Act data, specifically originations of first main home purchase and refinance loans for owner-occupied properties; and home ownership levels using the Census Bureau's Quarterly Vacancy Survey. She reported that those analyses showed, generally, that some of the mortgage features addressed in Dodd-Frank, such as hybrid adjustable rate mortgages ("ARMs") with short reset periods and mortgages with prepayment penalties, negative amortization, and interest-only payments, are not currently being offered and that the share of originations in LMI tracts dropped dramatically between 2005 and 2009. Specifically, she advised that the share of hybrid ARMs with short reset periods peaked in the first quarter 2006, declined to almost zero between the first quarter 2006 and the fourth quarter 2007, and remains at almost zero today; that mortgages in LMI tracts were about 50 percent more likely during the boom years to have prepayment penalties than those in middle- and upper-income tracts, but by the fourth quarter 2007 the share of such mortgages had fallen to almost zero and remains at almost zero today; and that mortgages in LMI tracts were slightly more likely during the boom period to have negative amortization or interest only payments than those in middle- and upper-income tracts, but had fallen to almost zero by the first quarter 2008 and the first quarter 2009, respectively, where they remain today.

With respect to mortgage originations, Ms. Chu reported that the number of originations has decreased dramatically between the

boom years and 2009, with a disproportionate decrease in LMI tracts, with a 57 percent decrease in LMI tracts versus a 22 percent decrease in middle- and upper-income tracts between 2005 and 2009; that the share of originations in LMI tracts declined dramatically from a peak of 17 percent in 2006 to only 9 percent in 2009; and that the share of FHA mortgages in LMI tracts increased from less than 5 percent in 2005 to about 35 percent in 2009. Moving to foreclosure, delinquency, and home ownership rates, she advised that, as of August 2010, the foreclosure rate in LMI tracts is about 50 percent higher than those in middle- and upper-income tracts; that the rate of serious delinquency is significantly higher in LMI tracts than middle- and upper-income tracts; and that, although home ownership rates are not available by census tract, data by race and ethnicity show that Blacks and Hispanics have a greater percentage decrease in home ownership rates from the peak relative to non-Hispanic Whites, widening the disparity in homeownership rates between those groups.

Ms. Ryan observed that it's fairly apparent that Dodd-Frank reform will significantly change the landscape of mortgage lending by helping to ensure that some of the more problematic lending practices are eliminated, which obviously is a positive development from the perspective of LMI households. She advised that, nonetheless, there are still rulemakings on the horizon that could affect the availability of credit or the terms of loans available to LMI households. She further advised that, taken together, the legislative and regulatory developments and research data suggest that the issue is not only with respect to what constitutes a safe mortgage product, but more fundamentally it's an issue of access and meeting the primary challenge of ensuring that sustainable homeownership still exists for LMI households where appropriate. She then identified as next steps beginning to focus efforts on ways to address access issues in the current environment by exploring innovative responses of local developers, community organizations, and other stakeholders to take an inventory of best practices; and beginning to think about the features of a safe mortgage product, building upon Dodd-Frank in the process.

After Ms. Lazar supplemented Ms. Ryan's earlier update on the safe transactions and savings pilot, Rae-Ann Miller, Special Advisor to the Director, DIR; Luke W. Reynolds, Chief, Outreach & Program Development Section, Community Affairs Branch, Consumer Protection and Community Affairs, DSC; and Luke H. Brown, Associate Director, Compliance Policy Branch, Policy, DSC, provided status reports on the activities of the Savings and Affordable Credit Work Groups, the Financial Education Work Group, and the Incentives Work Group, respectively.

Regarding the Savings Work Group, Ms. Miller indicated that it played a significant role in the development of the safe and affordable transaction and savings account pilot and also would be involved in data review and lessons learned from the pilot; that it is reviewing existing research on emergency savings with the goal of determining an appropriate level of such savings for LMI households; that it had researched and catalogued existing children's savings account programs and was interested in receiving Committee feedback on the issues of auto-enrollment, family involvement, multiple program participants, long-term evaluation, and the possibility of CRA credit. Regarding the Affordable Credit Work Group, she advised that it was actively involved in the development of the small dollar loan pilot, including follow-up activities to promote the findings of the pilot; that it had conducted a follow-up conference call with the small dollar loan pilot participants to discuss Title XII of Dodd-Frank as it related to small-dollar loan and loan loss reserve guarantees; that it had opened a dialogue with a number of groups, including the National Governors Association, trade associations, and others about possible mechanisms for disseminating information about best practices; and that it has had discussions with financial institutions and non-profits interested in exploring employer-based small-dollar loan programs.

With respect to the activities of the Financial Education Work Group, Mr. Reynolds elaborated on some of the key elements of the FDIC's partnership agreement with DOE and NCUA and reported on the FDIC's October 2010 release of an updated version of the adult Money Smart instructor-led curriculum that includes new information on topics ranging from transactional accounts to financial recovery; that the group had provided valuable feedback to staff on its draft framework for the FDIC's Adopt a School Program; and that staff provided input to the General Accounting Office on its study on the feasibility of certification for financial education programs and has continued to work with Treasury as a member of the Financial Literacy in Education Commission on the core competencies process.

Mr. Brown began his update on the Incentives Work Group by noting that Mr. McDonald is now chair of the group and thanking him for joining the group's efforts. He then advised that the group was in the process of developing an FDIC Chairman's Award, planned to be announced and opened for nominations in December 2010, for excellence in serving the needs of LMI consumers; that it is focused on bringing support to Community Development Financial Institutions ("CDFIs") by encouraging banks to be involved in CDFI investments and participations, and involved in planning for a CDFI conference, to be jointly sponsored by the

banking agencies in Spring 2011; and that staff, jointly with staffs of the other banking regulators, is currently reviewing the many comments received in response to the CRA hearings held throughout the country.

During the ensuing discussion, Committee members and staff covered a number of topics, including automatic enrollment in children's savings accounts and the direction of the mortgage market, particularly as it relates to LMI consumers. Chairman Bair asked Committee members for their views. In response, Mr. Beck suggested that there is an argument for conducting an experiment with two groups—one with automatic enrollment and, as a control group, one without automatic enrollment—to determine which approach is most effective in promoting continuing participation after the initial deposit. In response to Vice Chairman Gruenberg's request for the group's assessment on the outlook for the mortgage market, Ms. Ryan expressed her opinion that with the current diminution of some of the more problematic mortgage practices, the tightening of standards makes the real issue one of access, suggesting a need to focus attention on innovative ways of helping people to save for a down payment and to meet more restrictive requirements; Mr. Eakes agreed that there is likely to be a groundswell around the issue of access to credit, but questioned whether there continues to be a societal belief that sustainable homeownership in LMI communities is an appropriate goal; and Mr. Boston pointed out that these issues also affect the Black middle class, which is seriously at risk of losing much of its wealth due to the foreclosure crisis as well as high unemployment and the lack of access to small business loans.

Chairman Bair indicated that it had been a successful meeting and thanked everyone for their input.

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

November 16, 2010

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

November 16, 2010 - 8:52 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: February 11, 2011