

2011 FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked



December 2012

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I. Executive Summary

This report presents the results of the 2011 FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked (Bank Survey). As mandated by Federal law, the FDIC surveys insured depository institutions every two years to assess their efforts to bring individuals and families who have rarely, if ever, held a checking or a savings account at an insured depository institution, into the financial mainstream.¹

Accordingly, the primary purpose of the Bank Survey is to understand the efforts being undertaken by the retail banking industry to provide financial products and services to unbanked and underbanked consumers. The findings help inform financial institutions, policymakers, community organizations, and other stakeholders interested in expanding financial products and services to unbanked and underbanked consumers.

The Bank Survey was voluntary and consisted of an Internet-based questionnaire administered to a nationally representative random stratified sample of 707 retail bank headquarters, with 567 banks (80 percent) responding. Through the survey design, banks are grouped into one of three asset size categories: the largest 25 banks (with assets greater than \$38 billion), the smallest institutions (with assets less than \$1 billion), and midsize banks (with assets between \$1 billion and \$38 billion). Data was collected from November 2011 through February 2012.

The survey questions identify the extent to which insured depository institutions offered basic and auxiliary financial products and services, developed and marketed products, used retail strategies, and provided financial education and outreach activities to expand financial services to unbanked and underbanked consumers. The survey also asks about challenges and obstacles that might affect the ability of banks to offer financial services to the underserved.

Key Findings

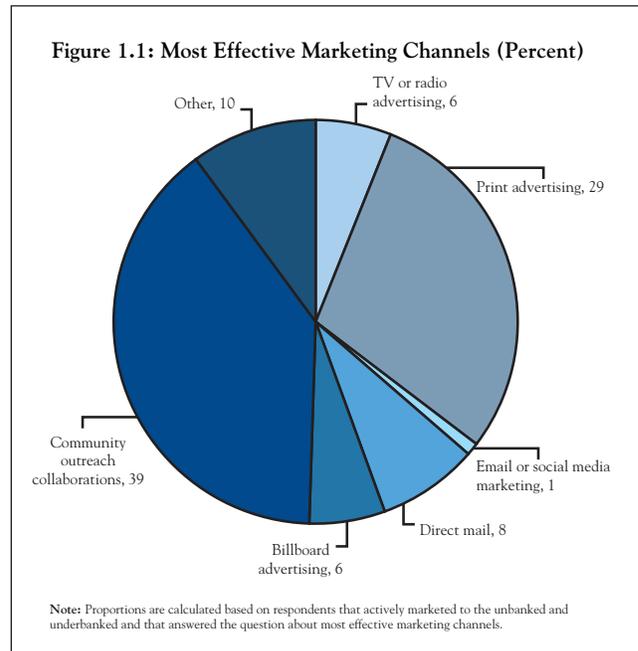
Product Development, Marketing, and Advertising

Four out of ten banks develop products and services for underserved consumers. Developing and actively marketing specialized products, services, or programs that are customized to meet the needs of unbanked and underbanked consumers are important steps banks can take to encourage full participation in the financial mainstream.

¹ The Survey was mandated by Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005. The FDIC retained Gallup, Inc. to help administer the survey of banks. Gallup, Inc. collected the survey results and reported findings which did not have bank-identifier information to the FDIC.

Almost 43 percent of banks were actively involved in developing products and services for underserved consumers.

Banks see community partnerships as an important strategy to reach underserved consumers. When asked to identify both the most effective marketing channels for reaching these consumers and retail strategies used, banks tended to identify community outreach collaborations and automated telephone banking, respectively. In addition, about half of banks reported using community partnerships specifically to promote accounts to underserved consumers.

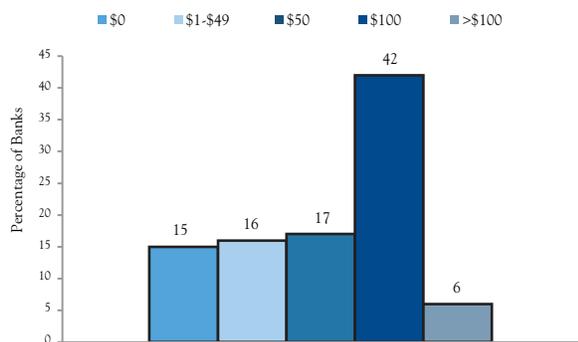


Basic Financial Products and Services

Almost half of all banks required an initial deposit of \$100 or more to open a basic checking account. On the most basic or entry-level checking account, 6 percent of banks required a minimum opening balance of more than

\$100 and 42 percent required precisely \$100 on accounts without direct deposit. Forty-eight percent of banks required \$50 or less to open such an account.

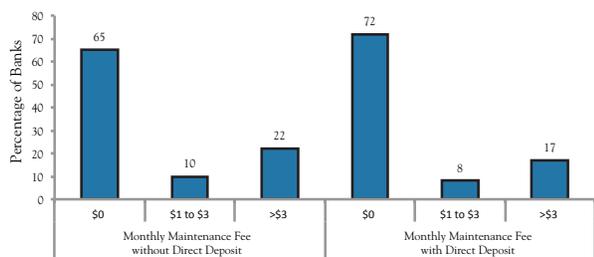
Figure 1.3: Minimum Opening Balance Requirement (Percent)



Note: Proportions are calculated based on all banks where balance requirements are for accounts where paycheck direct deposit is not in use. No respondents reported a minimum opening balance of between \$50 and \$100.

Nearly two-thirds of banks charged no monthly maintenance fees on basic checking accounts, though one in five charged more than \$3 per month on accounts without direct deposit. Regardless of whether a bank had products and services that specifically targeted unbanked and underbanked consumers, respondents were asked to indicate the features and fees for their most basic or entry-level checking accounts. Sixty-five percent of banks charged no monthly maintenance fees, 10 percent charged fees of between \$1 and \$3, and 22 percent charged fees in excess of \$3. On checking accounts with direct deposit, 72 percent of banks charged no maintenance fee. Among those that charged a fee, the median monthly amount was \$5 for accounts with and without direct deposit.

Figure 1.4: Monthly Maintenance Fees for Basic Entry-Level Checking Accounts (Percent)



Note: Proportions are calculated based on all banks.

The median charge for overdraft payments and on checks and other items rejected for nonsufficient funds were both \$28. In the large majority of cases, banks charged the same amount for overdraft payments or when items were rejected due to nonsufficient funds.

Two out of ten banks offered a “second chance” account to individuals that do not qualify for a basic checking account. The survey found that 21 percent of banks offered a “Stepping Stone” or “Second Chance” account to individuals not qualified for conventional accounts.

Few banks offered a card-based “checkless” checking account as their most basic, entry-level account. Among all banks, 21 percent offered electronic (card-based) accounts as their most basic transaction account product. Fewer—less than 1 percent of banks—offered a strictly card-based, electronic account (i.e., an account that does not allow at least some paper checks to be written).

Banks required a median minimum initial deposit of \$100 to open a basic savings account, though most banks did not charge a monthly maintenance fee if minimum average balance requirements were met. The median minimum average balance to avoid a monthly fee was \$100. If the minimum average balance requirement was not met, the median monthly maintenance fee was \$2.50.

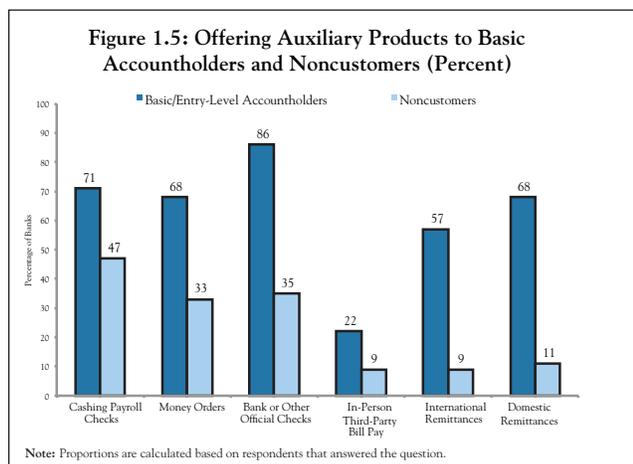
More than eight out of ten banks offered specialty savings products, such as youth savings accounts. A majority of banks (87 percent) offered at least one of the following specialty savings products: Individual Development Accounts (IDAs), specialized savings clubs, workplace-based savings, or youth (minor) savings accounts. Youth accounts dominated, with 82 percent of financial institutions offering this savings product. Forty-one percent of banks offered specialized savings clubs, while 9 percent of banks offered workplace-based savings accounts and close to 4 percent offered IDAs.

Most banks accepted non-traditional forms of identification to open accounts. A majority of banks accepted a non-US passport or some other nontraditional form of identification (ID) from prospective customers. Among respondents, 58 percent of banks accepted a non-US passport, 40 percent accepted ID from a foreign consulate, and 73 percent accepted an Individual Taxpayer ID Number (ITIN) as an alternative to a Social Security Number at account opening.

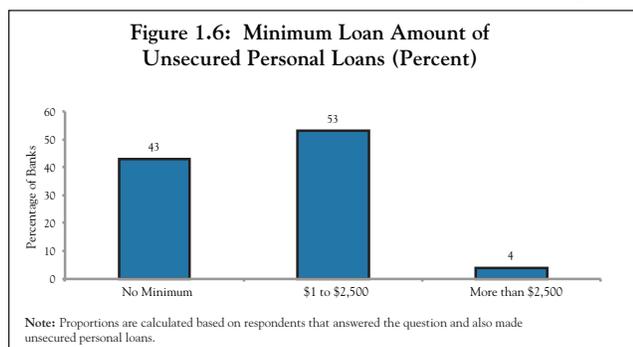
Auxiliary Products

Most banks offered check-cashing, bank checks, money orders, and remittances for existing accountholders, but not for others. The most commonly offered auxiliary products to both basic accountholders and noncustomers were payroll check cashing (71 percent for accountholders and 47 percent for noncustomers), bank or other official checks (86 percent for accountholders and 35 percent for noncustomers), and money orders (68 percent for accountholders and 33 percent for noncustomers). Compared to these commonly offered auxiliary products, domestic and

international remittances were offered less frequently. Sixty-eight percent of banks offered domestic remittances to basic accountholders and 57 percent offered international remittances to basic accountholders, but only slightly more than 11 percent offered domestic and 9 percent offered international remittances to noncustomers.

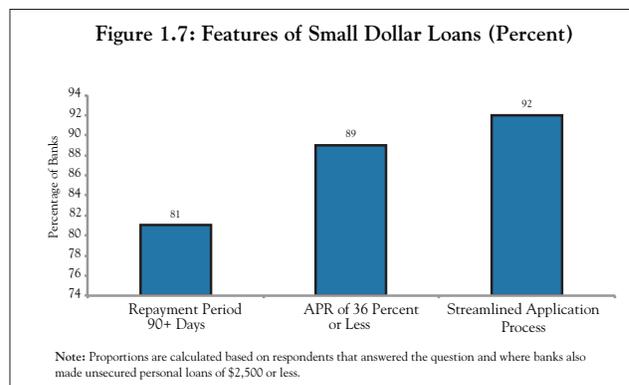


Eight out of ten banks offered small (under \$2,500) unsecured personal loans. The survey finds that 88 percent of all banks offered unsecured personal loans. Among these banks, 43 percent offered unsecured personal loans with no minimum loan amount and an additional 53 percent offered unsecured personal loans with a minimum loan amount of \$2,500 or less, which are referred to collectively as small dollar loans in this report.



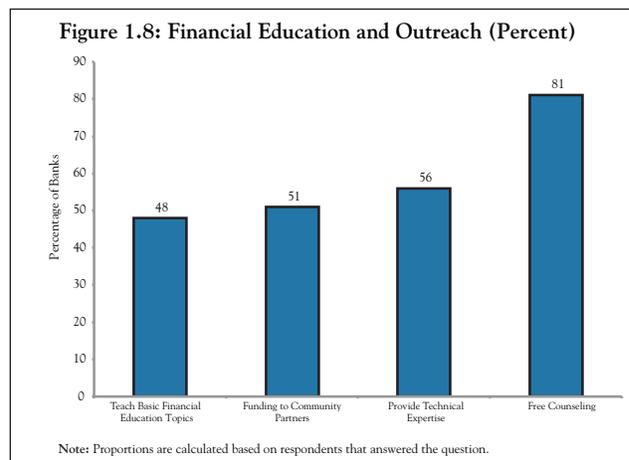
Banks offering small dollar loans tended to do so with repayment terms of 90 days or more, with annualized rates of 36 percent or less, and with loan approvals in less than 24 hours. Among banks that offered small dollar loans, a large majority offered loans with a repayment period of 90 days or more, an annual percentage rate (APR) of 36 percent or less, and streamlined underwriting to make a loan decision within 24 hours. Eighty-one percent of banks with small dollar loans indicated that the associated repayment period was 90 days or more. The APR (including upfront fees) was reported to be below 36 percent at nearly 89 percent of these banks. In addition,

most banks could approve a small, unsecured loan in less than 24 hours.

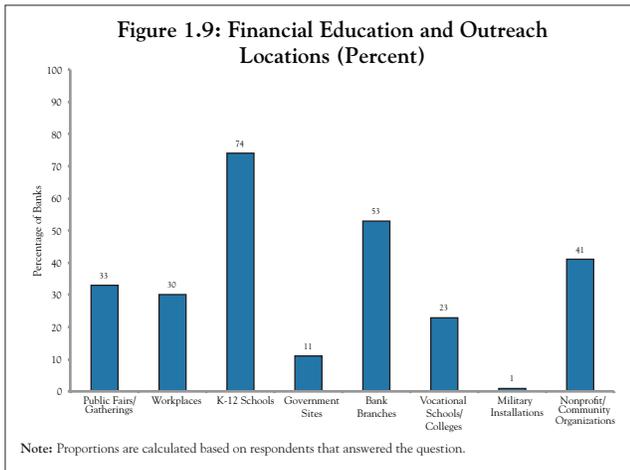


Financial Education and Outreach

Eight out of ten banks reported providing free counseling to underserved consumers. The survey asked banks if they provided financial education and outreach activities, including teaching basic financial education, funding community partners, providing technical expertise, and offering free counseling. Free counseling was the most frequently used and most highly rated activity targeted to unbanked and underbanked consumers. Overall, 81 percent of banks said they offered free counseling to underserved consumers and 58 percent rated this activity as very effective or effective. The most common locations were K-12 schools, with 74 percent of banks providing financial education and outreach activities at these sites.



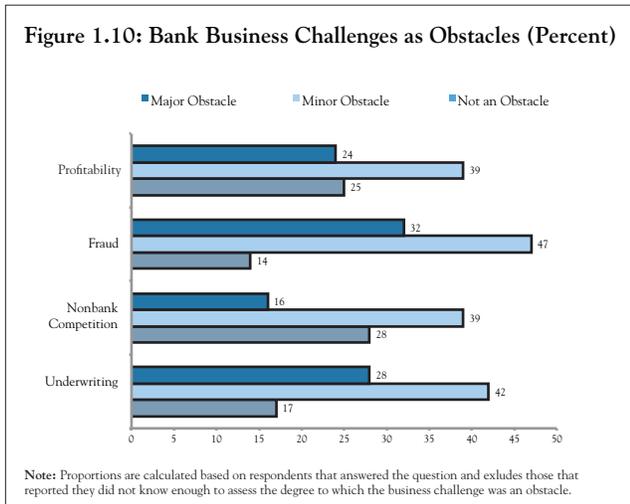
Roughly half of all banks used other strategies beyond free counseling to promote financial education, including teaching basic financial education, providing technical expertise, or funding community partners. Almost one-third of all banks (30 percent) participated in all four financial education and outreach activities included in the survey.



Challenges as Obstacles in Offering Financial Products and Services to Underserved

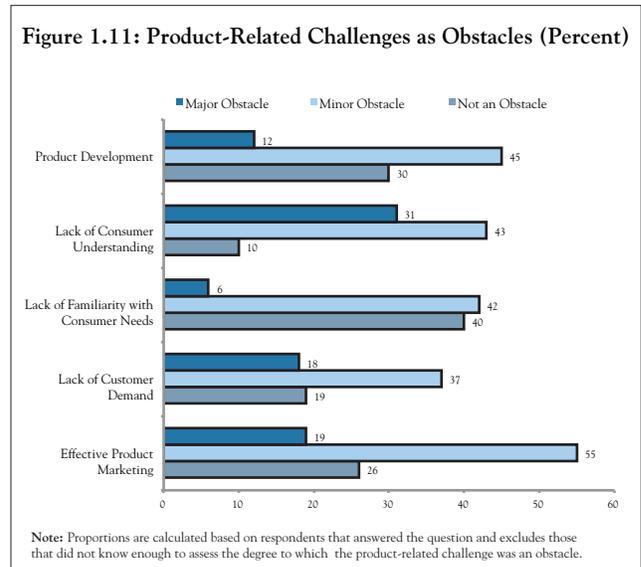
Banks were asked about bank business, product-related, and regulatory challenges as obstacles to reaching unbanked and underbanked consumers.

About one-third of banks identified fraud as the largest perceived major business-related challenge for banks in serving the underserved. Behind fraud (32 percent), underwriting (28 percent) and profitability (24 percent) were also cited relatively frequently as major obstacles. Only 16 percent of banks cited nonbank competition as a major obstacle.

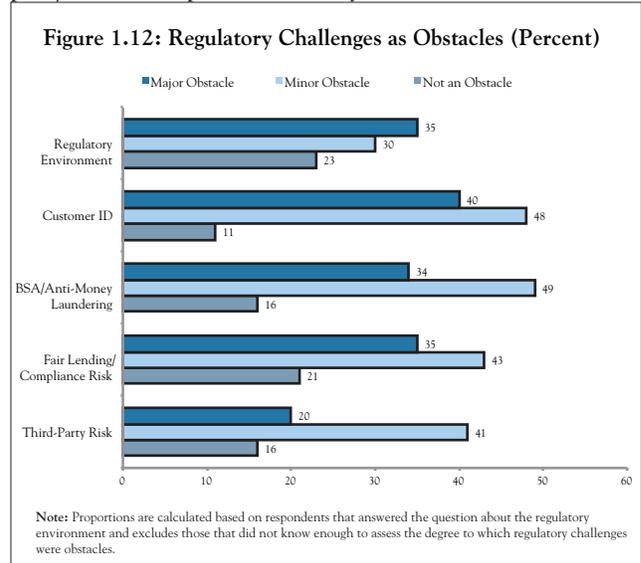


Thirty percent of banks reported that consumers' lack of understanding of financial products and services was a major product-related challenge. Among the other product-related challenges, relatively few banks stated that lack of familiarity with financial or banking needs of underserved consumers (6 percent), developing products that meet the needs of the underserved (12 percent), effectively marketing products to the underserved (19 percent), and lack of consumer demand (18 percent) were

major challenges in offering financial products and services to unbanked and underbanked consumers.



One in three banks (35 percent) cited regulatory requirements as a major obstacle in serving unbanked and underbanked consumers and an additional 30 percent cited them as a minor obstacle. Thirty-four to 40 percent of these banks reported that BSA/anti-money laundering (34 percent), fair lending/compliance risks (35 percent), and customer ID concerns (40 percent) were major obstacles in offering financial products and services to underserved consumers. In contrast, a relatively smaller proportion of banks (almost 20 percent) stated that third-party relationship risk was a major obstacle.



Results by Asset Size

The full report and appended tables provide additional findings and also disaggregate results for the largest 25 banks (with assets in excess of \$38 billion), midsize banks (with assets in excess of \$1 billion but less than \$38 billion), and the smallest banks (with assets of less than \$1 billion). In some respects, the results do not vary significantly among the three groups. However, the report does show that each group has some relative strengths to draw on in their efforts to meet the needs of underserved consumers, including the following examples:

- The largest banks tended to have lower initial deposit requirements on basic checking and savings accounts and accepted a broader range of foreign identification for account opening;
- Small and midsize banks were more likely not to charge maintenance fees on basic checking and savings accounts, had lower required account balances to avoid certain fees, and charged lower fees when they applied;
- The largest banks were more likely to engage in a greater range of educational and outreach activities;
- The largest banks were more likely to report actively marketing products or services customized to the needs of the unbanked and underbanked and to offer a wider array of auxiliary products and services;
- Small and midsize banks were more likely to make unsecured personal loans in amounts under \$2,500, to charge less on the auxiliary products and services they did offer, and to make funds available on the same day when cashing checks.

Opportunities to Expand Access to Mainstream Financial Services

Based on the Bank Survey results, we identify five opportunities banks could explore to expand access to mainstream financial services:

1. Expand Offerings of Basic, Low-Cost Checking and Savings Deposit Accounts

The Bank Survey finds that on the most basic checking deposit account without direct deposit that 48 percent of banks had minimum opening balance requirements of \$100 or more and 22 percent had monthly maintenance fees of more than \$3. For basic savings accounts, the median opening and average balance requirement to avoid a fee was \$100.

To broaden economic inclusion efforts, banks should consider offering low-cost electronic, card-based

transaction deposit accounts that do not allow overdraft and NSF fees. The survey found that around one in five banks offered electronic, card-based accounts and some evidence that those accounts which were strictly card-based and electronic (no paper check writing feature) had lower average opening balance requirements and monthly maintenance fees. The design of such accounts also reduces the overdraft risk banks face with accounts that permit check writing and may make it possible to eliminate NSF and overdraft fees, further reducing costs for consumers. These accounts may be even more attractive to consumers when paired with basic savings accounts with low minimum balance requirements.

2. Offer Additional Transaction Services to Underserved Households, Including Noncustomers

Consumers' use of nonbank financial services providers to meet their needs points to market opportunities for depository institutions. Some consumers, for example, use money orders in lieu of cash or checks to pay monthly rent or utility bills. Yet, one in three banks did not offer money orders to accountholders and two-thirds did not offer this product to noncustomers. In addition, unbanked consumers frequently need a way to cash checks. And consumers, especially those with family outside the US, often use nonbank financial services providers to make domestic or international remittances. The survey found that 71 percent of banks cashed payroll checks for basic accountholders and 47 percent offered this service to noncustomers. Moreover, one-half and two-thirds of banks offered international and domestic remittance products, respectively, to accountholders, but only nine and eleven percent of banks offered international and domestic remittance products, respectively, to noncustomers. Banks seeking to expand financial services to underserved consumers could consider offering a broader range of auxiliary transaction services to accountholders and noncustomers.

3. Enhance Small-Dollar Loan Product Marketing

Most banks (82 percent) offered unsecured personal loans with a minimum loan amount of \$2,500 or less, with many setting no minimum loan amount. However, 20 percent of households that obtained credit from payday lenders and almost 18 percent from pawn shops did so primarily because they thought that banks did not offer small-dollar loans.² While some proportion of borrowers that obtain small dollar credit from nonbank providers may not qualify for bank loans (about one-third of banks reported that underwriting was a major obstacle in offering financial products to unbanked and underbanked consumers), the gap between the small-dollar loan availability reported by

² See the 2011 FDIC National Survey of Unbanked and Underbanked Households Report at <http://www.economicinclusion.gov>.

banks and perceived by consumers suggests that banks could improve marketing of these products.

4. Utilize Partnerships with Community Organizations to Promote Checking and Savings Account Ownership

Community outreach through collaborations with community groups was identified as the most effective strategy for developing relationships with these populations. Despite this recognition, only about half of all banks reported using partnerships with organizations to promote opening checking or savings accounts. These findings suggest that banks may benefit from expanding collaborative efforts to promote access to mainstream deposit accounts.

5. Consider Expanding Retail Strategies to Build Relationships with Unbanked and Underbanked Consumers

The most frequently chosen retail strategies to make branches more convenient or welcoming to consumers were automated telephone banking, multilingual staff, and off-premise ATM locations. Banks engaged in these strategies generally reported that they were very effective or effective tools for developing a relationship with unbanked and underbanked consumers. Banks that have not deployed certain retail strategies (e.g., 63 percent of banks do not offer extended hours or services on weekends) should consider whether adding such options could better position the institution to build relationships with underserved consumers.

II. Background and Objectives

Access to a basic bank account and financial services are fundamental building blocks for families seeking to establish a solid financial foundation and to pursue opportunities for asset building and wealth accumulation over time. Banks provide individuals and families with the opportunity to safely and effectively conduct transactions, save, borrow, invest, and build a credit record. According to the 2011 FDIC National Survey of Unbanked and Underbanked Households, more than 34 million Americans are unbanked or underbanked and lack access to banks or are not fully participating in the mainstream financial system.³

The Federal Deposit Insurance Corporation (FDIC) is committed to ensuring that consumers have access to basic banking and other financial products and services as well as to developing high quality, relevant data about unbanked and underbanked households and factors that may hinder them from fully utilizing the mainstream financial system. As part of this commitment, the FDIC published its first nationwide survey of FDIC-insured depository institutions (Bank Survey) to assess their efforts to expand financial services to unbanked and underbanked individuals and families in 2009. This effort was the first of its kind at the national level.⁴

The survey was mandated by Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005. The Act requires that the FDIC survey insured depository institutions every two years to assess their efforts to bring individuals and families, who have rarely, if ever, held a checking or a savings account at an insured depository institution, into the financial mainstream.

In designing this survey, the FDIC sought to provide information that would inform efforts to serve unbanked and underbanked individuals. The general objectives of the survey are as follows:

- Identify and quantify the extent to which insured depository institutions reach out to, serve, and seek to meet the banking needs of unbanked and underbanked individuals and households;

- Identify challenges affecting the ability of insured depository institutions to serve unbanked and underbanked individuals and households; and
- Identify strategies that insured depository institutions used to offer financial products and services to unbanked and underbanked individuals and households.

2011 Bank Survey Details and Respondent Profile

The Bank Survey was voluntary and consisted of an Internet-based questionnaire administered to a nationally representative random stratified sample of 707 bank headquarters, with 567 banks responding to the survey.⁵ For the analysis, banks are grouped into one of three asset size categories listed in Figure 2.1 below.⁶ Results reported for “all banks” are weighted to achieve representative proportions of the three asset size groups.

Figure 2.1: Summary of Bank Headquarters Respondent Information By Bank Asset Size

| | Largest 25 Banks | Midsize Banks | Smallest Banks |
|-------------------------------------|---------------------------|---------------------------------------|-----------------------|
| Asset Size | Greater than \$38 Billion | \$1 Billion to Less than \$38 Billion | Less than \$1 Billion |
| Share of Total Bank Assets | 70% | 18% | 12% |
| Share of Total Branches | 43% | 28% | 29% |
| Number of Banks in Survey Sample | 25 | 282 | 400 |
| Number of Respondent Banks | 25 | 225 | 317 |
| Share of Respondent Banks in Sample | 4% | 40% | 56% |
| Response Rate | 100% | 79.8% | 79.3% |

Source: The FDIC Institution Directory (March 2012), second quarter 2011 FDIC Call Reports, and Gallup, Inc.

MSA and LMI Geographies

Branch location information was used to categorize banks by their presence in metropolitan statistical areas (MSAs) and in low- and moderate-income (LMI) communities. MSAs are geographies identified by the Office of Management and Budget that have at least one urban area with a population of 50,000 or more and surrounding areas that are economically associated with the core urban area. Inclusion or exclusion from an MSA does not necessarily indicate whether a county is rural in nature, though counties that are not included are, by definition, not associated

³ The 2011 FDIC National Survey of Unbanked and Underbanked Households is available at <http://www.economicinclusion.gov>. Unbanked households do not have a checking account or a savings account with an insured depository institution. In contrast, underbanked households have a checking or a savings deposit account but also obtain financial products and services from nonbank, alternative financial service providers.

⁴ The findings are available in the report, FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked, February 2009, at <http://economicinclusion.gov>.

⁵ The proportion of branches reported for each bank grouping was derived from the list of branches associated with the headquarters universe and that were active as of March 14, 2012. The FDIC retained Gallup, Inc. to help administer the survey of banks. Gallup, Inc. collected the survey results and reported aggregated results to the FDIC.

⁶ Bank asset size was determined from the second quarter 2011 FDIC Call Reports.

with a highly-populated urban area.⁷ LMI geographies are based on a comparison of the census tract level median family income to the larger MSA/Metropolitan Division (MSA/MD) median family income. A geography is designated as an LMI area if the census tracts have a median family income that is less than 80 percent of the MSA/MD median family income.⁸

Banks were identified as having a relatively high concentration of branches in MSA communities (high-MSA) when the share of branches in MSAs was greater than or equal to 75 percent and a low concentration or branches in MSA communities (low-MSA) when the share of branches in MSAs was less than 75 percent. High-LMI banks have 33 percent or more of their branches in LMI communities, and low-LMI banks have less than 33 percent of branches in LMI areas.⁹

All of the largest banks had relatively high concentrations of branches in MSA areas (high-MSA) and outside of LMI communities (low-LMI). This compares with two-thirds of midsize banks with relatively high concentrations of branches in MSAs (high-MSA) and 20 percent with concentrations in LMI communities (high-LMI), while just under half of the smallest banks were considered high-MSA banks and 29 percent high-LMI.

Figure 2.2: Respondent Banks by Branch Distribution in LMI areas and MSAs by Asset Size

| Branch Distribution | All Banks | Greater than \$38 Billion (Largest) | \$1 Billion to Less than \$38 Billion (Midsize) | Less than \$1 Billion (Smallest) |
|--|-----------|-------------------------------------|---|----------------------------------|
| | % | % | % | % |
| High-LMI (One-Third or More of Branches in LMI Areas) | 29 | 0 | 20 | 29 |
| Low-LMI (Less than One-Third of Branches in LMI Areas) | 71 | 100 | 80 | 71 |
| High-MSA (Three-Quarters or More of Branches in MSAs) | 50 | 100 | 67 | 48 |
| Low-MSA (Less than Three-Quarters of Branches in MSAs) | 50 | 0 | 33 | 52 |

Note: All respondents are included.

⁷ Detailed information on the update of statistical area definitions is available at <http://www.whitehouse.gov/sites/default/files/omb/assets/bulletins/b10-02.pdf>.

⁸ This report follows conventions detailed by the Federal Financial Institutions Examination Council. More information is available on how income geography designations are calculated at <http://www.ffiec.gov/census/censusInfo.aspx>.

⁹ Branch location data was taken from the FDIC's Institution Directory file as of March 14, 2012. The high-LMI criterion of 33 percent of a bank's branches in an MSA was the 75th percentile value for all banks in existence at this time. The high-MSA criterion of a bank having 75 percent of its branches in an MSA tract is roughly the median value. (The actual median value was 66.7 percent, while the 52nd percentile is 75 percent.) Although somewhat arbitrary, these categorizations are reasonable, and also were chosen to ensure that the identity of survey respondents remained protected.

Analysis and Statistical Significance

For each of the topics discussed in this report, a small proportion of respondents did not provide an answer to the relevant question in the survey instrument. We generally do not discuss patterns of "no response" and do not include them in the calculations of descriptive statistics such as proportions, means, and medians, unless otherwise specified in the report. Each table in Appendix A includes a non-response rate relevant to the analysis in that table. Displayed non-response rates include both respondents that did not answer the question and respondents that were not presented the question since, for example, previous responses on the questionnaire indicated that the question was not relevant to the bank.

Unless otherwise indicated, differences discussed in this report are significant at least at the 10 percent level. That is, if there was no actual difference in the underlying populations being compared, the probability of obtaining sample estimates with the observed difference or a larger difference would be no more than 10 percent, and could be considerably less. For additional details on the survey and its methodology, see Appendix B to this report.

Comparability to Prior Results

The FDIC extensively revised the 2009 Bank Survey to create the 2011 Bank Survey instrument. Questions were revised and streamlined to improve the questionnaire and promote strong response rates. The survey also was converted from a paper-based to an Internet-based instrument, which provided greater convenience for the respondent. These improvements and revisions make it largely impossible to compare results from the two surveys.

III. Marketing and Retail Strategies

A substantial proportion of banks reported developing specialized products, services, or programs customized to meet the needs of unbanked and underbanked consumers. Community outreach collaborations were the most frequently cited marketing channel and automated telephone banking was the most common retail strategy used by banks. Close to one-half of all banks maintained partnerships with organizations to promote opening checking and savings accounts.

3.1 Marketing and Specialized Product Development

Thirty-seven percent of all banks said that they actively marketed to unbanked and underbanked consumers. Two-thirds of the largest banks, 43 percent of midsize banks, and 36 percent of the smallest banks reported actively marketed to underserved consumers. Almost 43 percent of all banks reported developing specialized products and services for underserved consumers, with 92 percent of the largest banks, 60 percent of midsize banks, and 41 percent of the smallest banks reported having done so.

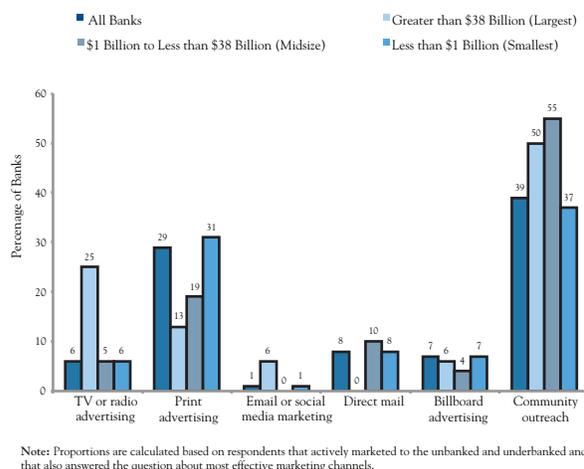
3.2 Effective Marketing Channels

The survey asked banks to rank the most effective channels (e.g., community outreach collaborations with community organizations, advertising in newspapers and other print media, and TV or radio advertising) used to market products and services to unbanked and underbanked consumers.

Thirty-nine percent of all banks that actively marketed to unbanked and underbanked consumers reported community outreach collaborations with community groups, nonprofits, and government agencies or other organizations as the most effective marketing channel. By bank asset size, all three groups selected this option as the most effective, with narrow majorities of the largest and midsize banks and almost 37 percent of the smallest banks selecting community outreach collaborations as the most effective way to reach unbanked and underbanked consumers.

The second most commonly selected choice for the single most effective marketing channel among banks that actively marketed to the underserved was advertising in print media, with 13 percent of the largest banks, 19 percent of midsize banks, and 31 percent of the smallest banks choosing this as most common second option.

Figure 3.1: Most Effective Marketing Channels by Asset Size (Percent)



3.3 Effective Retail Strategies

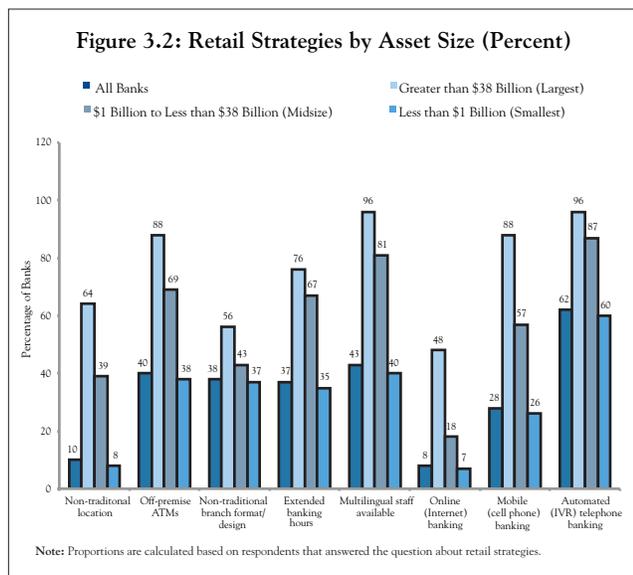
Banks were asked if they used specific retail strategies to make their branches more welcoming or convenient for consumers. For the purpose of this question, banks were asked to respond about all customers and not specifically about unbanked or underbanked consumers. The retail strategies included nontraditional locations (e.g., community centers or supermarkets); off-premise ATMs in retail establishments or other accessible locations; nontraditional branch format or design (e.g., casual lobby décor); extended banking hours on weekday evenings, Saturday afternoons, or Sundays; multilingual staff; online (Internet) banking; mobile (cell phone) banking; and automated telephone banking. In general, the most frequently chosen retail strategies were automated telephone banking, multilingual staff, and off-premise ATM locations.

The survey further explored the effectiveness of each retail strategy by asking banks to rate the effectiveness of each in terms of developing a relationship with unbanked or underbanked consumers. Each strategy was rated on a four-point scale from “very effective” to “not effective at all” and respondents could also reply that they did not know the effectiveness of the strategy for the stated purpose. The effectiveness rating for each of the most frequently chosen strategies is discussed below.

3.3.1 Automated Telephone Banking

A relatively large proportion of institutions, regardless of size, indicated that they used an automated telephone banking retail strategy for improving customer experiences. More specifically, 62 percent of banks stated that they used the strategy, including 96 percent of the largest banks, 87 percent of midsize banks, and almost 60 percent of the smallest banks.

The effectiveness rating of the automated telephone banking retail strategy in developing a relationship with underserved consumers varied little among banks of different sizes. Regardless of asset size, almost half of the institutions rated this strategy as very effective or effective.



3.3.2 Multilingual Staff

The availability of multilingual staff was the second most frequently chosen retail strategy, selected by 43 percent of banks. Ninety-six percent of the largest banks reported using this strategy to make the bank more welcoming or convenient for customers and close to 77 percent rated this strategy as very effective or effective. Eighty-one percent of midsize banks chose this strategy and two-thirds rated it as very effective or effective. For the smallest banks, 40 percent employed multilingual staff, and of those institutions 61 percent said that this strategy was very effective or effective for establishing relationships with the underserved market.

3.3.3 Off-Premise ATM Locations

The availability of off-premise ATM locations was the third most frequent retail strategy, selected by 40 percent of banks. Eighty-eight percent of the largest banks choose off-premise ATMs as a retail strategy for making the bank more convenient and welcoming. Of these institutions, more than one-third rated this strategy as very effective or effective. Sixty-nine percent of midsize banks and 38 percent of the smallest banks selected this strategy, and 42 percent of each group rated this strategy as very effective or effective.

3.3.4 Mobile Banking

Mobile banking appears to be a more well-established retail strategy among larger institutions. Eighty-eight percent of the largest banks used this retail strategy to make banking more convenient or welcoming. Overall, 28 percent of all banks used this strategy, with 57 percent of midsize banks and 26 percent of the smallest banks using this strategy.

About one-third of the largest and midsize banks rated mobile banking as a very effective or effective strategy for developing relationships with unbanked and underbanked consumers, while 18 percent of the smallest banks rated this strategy in the same way.

Of the retail strategies discussed in this report, mobile banking had the highest proportion of respondents (34 percent) indicate that they did not know enough to assess the effectiveness of the strategy for meeting the needs of the underserved. This proportion of “don’t know” was much greater than, for example, the 13 percent of respondents that could not assess the effectiveness of off-premise ATMs or the 7 percent “don’t know” response rate associated with multilingual staff.

3.4 Partnerships to Promote Checking or Savings Account Products

The survey asked banks whether they maintained partnerships with organizations (e.g., school districts, volunteer income tax assistance (VITA) sites, and faith/community-based organizations) to promote checking or savings accounts. About half of all banks, promoted checking (49 percent) and savings (50 percent) accounts through partnerships, including roughly eight in ten of the largest banks, three-quarters of midsize banks, and slightly less than one-half of the smallest banks.

IV. Characteristics of Basic Deposit Products

On the most basic or entry-level checking account, almost half (48 percent) of all banks required a minimum opening balance of \$100 or more. Nearly two-thirds of banks charged no monthly maintenance fee, though one in five charged more than \$3 per month on accounts without direct deposit. Sixty-five percent of banks charged no monthly maintenance fees, 10 percent charged fees of between \$1 and \$3, and 22 percent charged fees in excess of \$3. On checking accounts with direct deposit, 72 percent of banks charged no maintenance fee. Among those that charged a fee, the median monthly amount was \$5 for accounts with and without direct deposit. The largest banks were the most likely to charge monthly maintenance fees in excess of \$3 on accounts without direct deposit (72 percent did so), but 64 percent of the largest banks charged no fee if the account had direct deposit. Median NSF and overdraft fees were both \$28, though higher (median of \$35) for the largest banks.

Among banks that required a minimum opening balance for a basic savings account, the median opening balance required was \$100. Most banks had a zero monthly maintenance fee if the minimum average balance requirement was met, which was also \$100, at the median. If the minimum average balance requirement was not met, the median monthly fee was \$2.50. Opening balance requirements tended to be lower at the largest banks (median of \$25), but the amount required to be held in savings to avoid a maintenance fee (median average balance of \$300) and the fees charged for accounts with less than this amount (median of \$4) tended to be greater at these institutions. A substantial majority of banks offered one of the following specialty savings products: Individual Development Accounts (IDAs), specialized savings clubs, workplace-based savings, or youth (minor) savings accounts, with the largest banks offering IDAs and workplace-based savings accounts more frequently.

4.1 Basic or Entry-Level Checking Account Characteristics

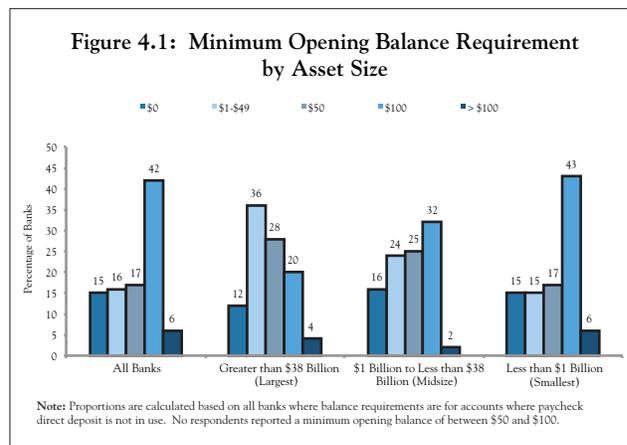
Bank respondents were asked to describe the characteristics of a basic checking account, including the minimum opening balance requirement, the monthly maintenance fee, the minimum account balance required to avoid a fee, and if fees differed depending on whether the account-holder used direct deposit.¹⁰ Banks were also asked if they offered an electronic, card-based account as their most basic checking product. Finally, banks were asked to

¹⁰ In the survey, a basic or entry-level checking or savings account was defined as an FDIC-insured transaction or deposit account that has the most basic features and tends to have the lowest minimum balance requirements.

describe fees for check processing, nonsufficient funds, and overdrafts.

Account Opening Requirements

Nearly half of banks (48 percent) required a minimum initial deposit of \$100 or more to open a basic checking account without direct deposit. By comparison, 12 percent of the largest banks and nearly 16 percent of both midsize and the smallest banks did not require a minimum balance to open an account without direct deposit. A greater share of the largest banks (36 percent) had a minimum opening balance requirement of between \$1 and \$49, compared with midsize banks (24 percent) and the smallest banks (15 percent). The median minimum opening balance requirement was \$50 for both the largest and midsize banks, and \$100 for the smallest banks.

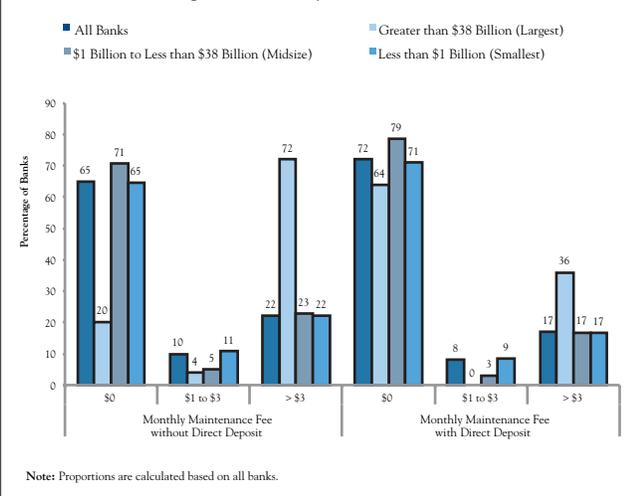


For most banks, whether a customer had direct deposit did not affect the minimum opening balance requirements. However, for the roughly 7 percent of banks where it made a difference, direct deposit reduced the required minimum opening balance substantially, often to zero.

Monthly Maintenance Fees

Nearly two-thirds of banks charged no monthly maintenance fee on basic checking accounts without direct deposit, though 22 percent charged fees in excess of \$3. Among banks that charged a fee, the median monthly maintenance fee for accounts with direct deposit was roughly \$5 regardless of asset size; the median monthly maintenance fee without direct deposit was \$7.50 for the largest banks and \$5 for both midsize and the smallest banks. A substantial proportion of the largest banks (72 percent) assessed a monthly maintenance fee of more than \$3 on accounts without direct deposit, but 64 percent charged no fee if the account had direct deposit. Less than one-fourth of midsize or small banks had a monthly maintenance fee of more than \$3, and most midsize (71 percent) and small (65 percent) banks had no monthly maintenance fee even on accounts without direct deposit.

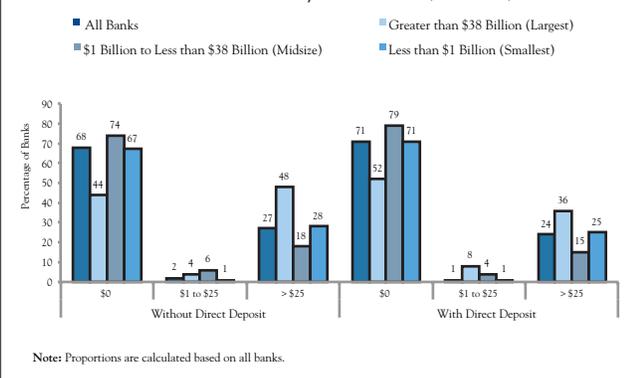
Figure 4.2: Monthly Maintenance Fees for Basic or Entry-Level Checking Accounts by Asset Size (Percent)



Minimum Account Balance Requirements

Most banks did not require customers to maintain a minimum account balance on a basic checking account without direct deposit in order to avoid a low-balance fee. About three-quarters of midsize banks, two-thirds of the smallest banks, and 44 percent of the largest banks had no minimum account balance requirement. Without direct deposit, the median minimum account balance requirement to avoid a fee among banks that had a minimum account balance requirement was \$1,500 for the largest banks, \$500 for midsize banks, and \$325 for the smallest banks. With direct deposit, these institutions reported that the median minimum was \$1,000 for the largest banks, \$500 for midsize banks, and \$300 for the smallest banks.

Figure 4.3: Minimum Account Balance Required to Avoid Low-Balance Fees by Asset Size (Percent)

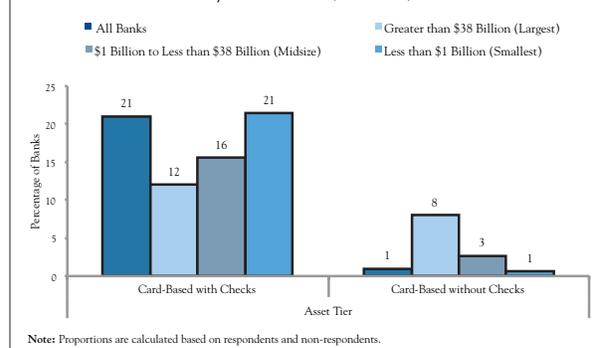


Direct deposit had a minor impact on minimum account balance requirements for the largest banks. Although 52 percent of the largest banks offered a zero minimum balance on accounts with direct deposit, 28 percent had a minimum balance requirement of more than \$500.

Availability of Electronic Card-Based Accounts

Among all banks, only 21 percent offered electronic (card-based) accounts as their most basic account product. Even fewer—8 percent of the largest banks, 3 percent of midsize banks, and less than 1 percent of the smallest banks—offered a strictly card-based, electronic account (i.e., an account that does not allow at least some paper checks to be written). Although the number of banks offering a check-free, card-based, electronic account is small, the average minimum needed to open an account and the average monthly maintenance fees are lower for these accounts than for traditional checking accounts with a check writing feature.¹¹ While not conclusive, these findings provide some evidence to suggest that the fees are less for lower-cost accounts such as check-free, card-based, electronic accounts.

Figure 4.4: Electronic Card-Based Accounts by Asset Size (Percent)



Check Processing Fees

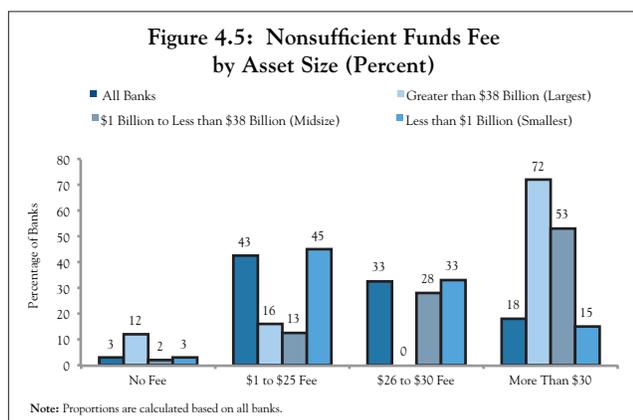
Most banks, regardless of asset size, did not charge a per-item fee on paper checks. In each asset category, over 80 percent of banks had no per-item fee on paper checks. When a per-item check fee was charged, it was generally small. The median fee among those assessing one was \$0.35 for the largest banks, \$0.50 among midsize banks, and \$0.20 among the smallest banks.

Nonsufficient Funds (NSF) Fees

Nonsufficient funds (NSF) fees varied by institution size, with larger banks charging higher fees. The overall average NSF fee was \$26.58, and the median was \$28.00. The median NSF fee among the largest banks was \$35, compared with \$32 for midsize banks and \$27 for the smallest banks. A greater share of the largest banks charged an NSF fee of more than \$30; over 70 percent of

¹¹ These findings hold for traditional checking accounts, regardless of whether direct deposit is used. It also is worth noting that the median value for the minimum needed to open an account (\$100) and the median maintenance fee (\$5) is the same for both types of basic, entry-level accounts discussed here even as the mean averages vary.

the largest banks, 53 percent of midsize banks and 15 percent of the smallest banks charged an NSF fee of more than \$30.



Banks with a greater share of branches in MSAs (high-MSA) also charged higher NSF fees, with 24 percent of high-MSA banks charging fees above \$30 compared with 13 percent of low-MSA banks. These patterns were evident across the three asset groups. For example, 20 percent of the smallest banks with a high-MSA proportion charged NSF fees above \$30, compared with 11 percent of the smallest banks with a low-MSA proportion. For midsize banks, 57 percent of high-MSA midsize banks charged NSF fees above \$30, compared to 47 percent of low-MSA midsize banks.

Automated and Non-Automated Overdraft Programs

Regardless of asset size, a large majority of banks offered an overdraft payment program, as well as an alternative to an overdraft program, such as a linked account or line of credit. Roughly 90 percent of both the largest, midsize, and small banks offered automated or non-automated overdraft programs. Among banks that responded to this question, automated overdraft programs (ODPs) were more common at larger institutions. Roughly 70 percent of the largest institutions had an automated ODP, while 54 percent of midsize and 32 percent of the smallest banks had one.¹² Most banks (92 percent of the largest banks, 94 percent of midsize banks, and 85 percent of the smallest banks) offered an alternative to an ODP, in the form of either a linked-account program or a line of credit.

Overdraft Fees

As with NSF fees, ODP fees generally varied by bank size and MSA branch share, with larger banks and banks with a higher share of branches in MSAs charging higher fees.

¹² Automated overdraft coverage is a payment program that typically (but not always) relies on computerized decision-making, and uses pre-established criteria to pay or return specific items. There is little to no discretion given to bank employees, and no case-by-case bank employee decision-making with respect to an individual customer or item.

Overdraft fees were generally higher for the largest banks than for midsize or the smallest banks. Roughly 68 percent of the largest banks, 52 percent of midsize banks, and 14 percent of the smallest banks charged overdraft fees of more than \$30. The average overdraft fee was \$26.45, and the median fee was \$28.00. The overdraft fee was higher at larger banks. For example, the median overdraft fee was \$35 for the largest banks, \$32 for midsize banks, and \$27 for the smallest banks.

As with NSF fees, estimated overdraft fees were slightly higher among banks with a larger proportion of branches in MSAs (high-MSAs). For example, 18 percent of the smallest banks with a high-MSA concentration charged NSF fees above \$30, compared with 10 percent of the smallest banks with a low-MSA concentration. For midsize banks, 57 percent of those with a high-MSA concentration charged NSF fees greater than \$30, compared to 41 percent of midsize banks with a low-MSA concentration.

Overdraft fee patterns were similar to NSF fee patterns: in the majority of cases, banks charged the same fee for NSF and ODP. Indeed, ODP and NSF fee amounts were identical for 78.5 percent of all banks. A small proportion of banks (7.5 percent) charged ODP fees that differed from NSF fees. Similarities among the remaining banks (13.8 percent) were unknown or not applicable because the ODP or NSF fee was unknown or the bank did not cover overdrafts.

Funds Availability

Based on a hypothetical check of \$2,500 or less made payable to an established bank customer, respondents were asked how quickly in terms of number of business days the full amount of funds would ordinarily be available, in the case of the most basic or entry-level checking account. A majority of banks made funds available either on the same business day or on the next business day, regardless of check type. However, a lower proportion of the largest banks made funds available on the same day.

Banks reported their funds availability policies on check amounts of \$2,500 or less for four alternative types of checks: “on-us” checks, payroll checks, personal checks, and government checks.¹³ More midsize and small banks made funds available on the same business day for personal checks than did the largest banks. Specifically, 29 percent of the smallest banks, 14 percent of midsize banks, and 4 percent of the largest banks made funds available on the same business day. The percentages were even higher for other check types.

¹³ An “on-us” check is a check presented for payment at the same institution on which the check is drawn.

Banks with a larger share of branches in MSAs (high-MSA) were less likely to make funds available on the same day. For example, among the smallest banks with a high-MSA concentration, only 30 percent made funds from a payroll check available on the same day, compared with 54 percent of the smallest banks with a low-MSA concentration. This finding was less pronounced for midsize banks: 21 percent of midsize banks with a high-MSA concentration made funds from a payroll check available on the same day, compared to 27 percent of midsize banks with a low-MSA concentration.

4.2 Basic Savings Account Characteristics

Bank respondents were asked to describe the characteristics of basic or entry-level savings accounts (basic savings accounts), including the minimum opening balance requirement, the monthly maintenance fee, the minimum account balance requirement to avoid a fee, and whether automatic saving is an option with the most basic account. Banks were also asked if they offered specialty savings products, such as Individual Development Accounts (IDAs), specialized savings clubs, workplace-based savings, or youth (minor) savings accounts.

Account Opening Requirements

The median minimum opening balance for a basic savings account was \$100. The median opening balance requirement was \$25 at the largest banks and \$100 among midsize and small banks. Sixty percent of the largest banks required a minimum opening balance of \$25 or less, while roughly one-third of midsize and the smallest banks required a minimum opening balance of \$25 or less.

Minimum Account Balance Requirements

The median minimum average account balance on the most basic savings accounts to avoid a fee was \$100. However, an estimated 76 percent of the largest banks, 42 percent of midsize banks and 21 percent of the smallest banks had a minimum average balance requirement of over \$100 on their most basic savings account. Eight percent of the largest banks, 28 percent of midsize banks, and 37 percent of the smallest banks had a minimum average balance requirement of \$25 or less.

Monthly Maintenance Fees

Many banks had a zero monthly maintenance fee on their most basic savings account if the minimum average balance requirement was met. Roughly 64 percent of the largest banks, 45 percent of midsize banks, and 40 percent of the smallest banks said they did not charge a fee if the minimum balance was met. While most banks did not charge more than \$3 for the monthly maintenance fee if the minimum balance was met, a somewhat greater

proportion of the largest banks (16 percent) did so than midsize (11 percent) and the smallest (9 percent) banks.

If the minimum average balance requirement was *not* met, the median monthly maintenance fee charged by banks was \$2.50. In these circumstances, the median fee charged by the largest banks was \$4 on their basic savings account product. Most midsize and small banks did not charge a fee or charged a fee below \$3 in these circumstances. If the minimum average balance was not met, 68 percent of the largest banks, 28 percent of midsize banks and 18 percent of the smallest banks assessed a monthly fee of more than \$3.

Automatic Savings Options

Most banks (75 percent) offered an automatic saving option without a fee on their most basic savings account product. About 92 percent of the largest banks, 80 percent of midsize banks, and 75 percent of the smallest banks offered this option for free. None of the largest banks that offered automatic saving charged a fee for this feature, while 3 percent of midsize banks and 4 percent of the smallest banks did.

Specialty Savings Products

A substantial majority of banks (87 percent) offered at least one of the following specialty savings products: Individual Development Accounts (IDAs), specialized savings clubs, workplace-based savings, or youth (minor) savings accounts, with the largest banks offering IDAs and workplace-based savings more frequently. Most banks offered youth savings accounts (82 percent), regardless of asset size. A greater proportion of the largest banks offered IDAs (46 percent) than did midsize (20 percent) or the smallest (2 percent) banks. A greater proportion of the largest banks also offered workplace-based savings (52 percent) than did midsize (31 percent) or the smallest (7 percent) banks.

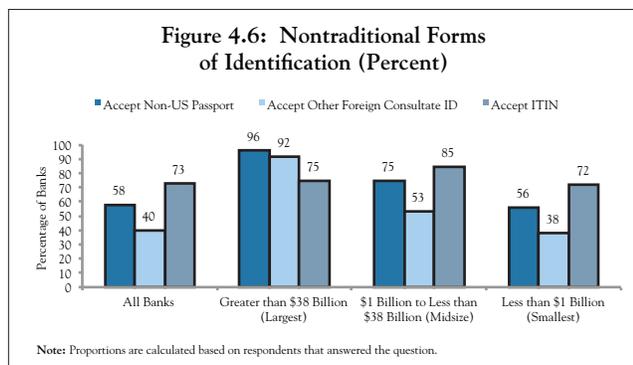
4.3 Account Opening Considerations

In addition to questions regarding various account opening requirements, the survey also asked whether banks accepted nontraditional forms of ID from prospective customers seeking to open a new deposit account. In addition, respondents explained how they address negative information that is obtained during the account screening process regarding potential customers.

Nontraditional Forms of Identification

A majority of banks accepted a non-US passport or some other nontraditional form of ID from prospective customers. Among banks that responded, 58 percent overall, including ninety-six percent of the largest banks, 74 percent of midsize banks and 56 percent of the smallest

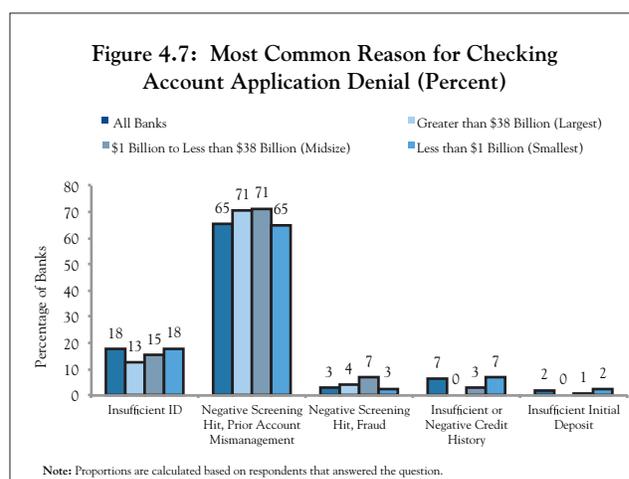
banks accepted a non-US passport. Forty percent accepted ID from a foreign consulate, including 92 percent of the largest banks, 53 percent of midsize banks, and 38 percent of the smallest banks. Regardless of asset size, roughly three out of four banks accepted an Individual Taxpayer ID Number (ITIN) instead of a Social Security Number at account opening.



Application Screening Procedures

Financial institutions may consult a credit reporting agency or another third-party credit or consumer transaction reporting database during the application screening process. If the application screening process returned either a negative or insufficient information outcome, only a small proportion of banks—less than one in four—automatically rejected the application, as opposed to reviewing the application at the local branch or some other designated location. Most banks, regardless of size, reviewed the application where it was received.

With respect to checking account applications, regardless of bank size, roughly two-thirds of banks cited “negative screening hit due to prior account closure or mismanagement” as the most common reason for denying an application. The second most common reason was “insufficient identification,” cited by 18 percent of all banks. Results are similar for savings account applications.



“Second-Chance” Account Options for Customers Denied a Conventional Account

If an applicant does not qualify for a conventional checking account, a bank may offer a transaction account that provides electronic access with little, if any, check writing capability. The survey finds that one in five banks (21 percent) offered a “Stepping Stone” or “Second Chance” account to individuals not qualified for conventional accounts. The proportion of banks offering these accounts was higher among large banks (44 percent) than midsize (32 percent) and the smallest banks (20 percent).

V. Auxiliary Products

Banks offered auxiliary financial products and services to their basic or entry-level accountholders and noncustomers. These products and services include payroll check cashing, bank or other official checks, money orders, domestic and international remittances, in-person third-party bill payment, network-branded reloadable prepaid cards, and unsecured personal loans.

The most commonly offered auxiliary products to both basic accountholders and noncustomers were payroll check cashing, bank or other official checks, and money orders. Compared to these commonly offered auxiliary products, domestic and international remittances were offered less frequently. Sixty-eight percent of banks offered domestic remittances to basic accountholders and fifty-seven percent offered international remittances to basic accountholders, but only 11 percent offered domestic remittances and 9 percent offered international remittances to noncustomers. Twenty-two percent of banks offered in-person third-party bill payment to accountholders and 9 percent offered this auxiliary service to noncustomers. In terms of network-branded reloadable prepaid cards, 23 percent of banks offered this basic financial services product to basic accountholders and 14 percent offered this product to noncustomers.

Among all banks, more than one-half (56 percent) offered unsecured personal loans with small dollar loan features, such as a minimum loan amount of \$2,500 or less, an APR of 36 percent or less, a repayment period of more than 90 days, and streamlined underwriting. Among all banks, 88 percent offered unsecured personal loans. Of those banks, 43 percent reported that they did not set a minimum loan amount and 53 percent reported having a minimum loan amount of \$2,500 or less.

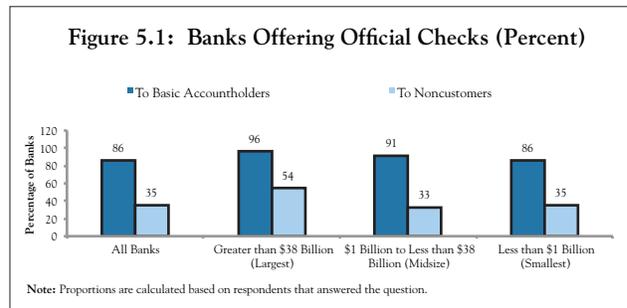
5.1 Auxiliary Products for Basic Accountholders and Noncustomers

Financial institutions were asked to indicate whether they offer auxiliary products to their most basic or entry-level accountholders (basic accountholders) or noncustomers in their market area. Institutions also described the fee, if any, they charged for a product with a hypothetical amount of \$250. For example, respondents indicated the amount they charge a noncustomer to cash a \$250 payroll check, or purchase a \$250 money order, cashier's check, or domestic or international remittance.¹⁴

¹⁴ Respondents were asked to provide the typical fee associated with the service, either in a dollar amount or as a percentage. In most cases, banks reported a dollar fee. For the purpose of reporting the average and median cost of auxiliary services, the percentage fee was multiplied by the hypothetical \$250 auxiliary service to arrive at a dollar fee.

Official Checks (Cashier's Checks, Bank Checks, E-Checks, or Other Official Checks)

For basic accountholders, the most commonly offered auxiliary product was an official check, such as a bank check, cashier's check, or e-check. Eighty-six percent of banks offered official checks to basic accountholders, while 14 percent of banks did not.



Among banks that offered official checks, most (73 percent) charged a fee to basic accountholders for official bank checks; although more than one-fourth (27 percent) offered bank or other official checks free of charge. Both the average and median official check fee was \$5, although larger banks charged higher fees on average. (The median fee charged was \$8 by the largest banks and \$5 for both midsize and small banks). Ninety-six percent of the largest banks, 91 percent of midsize banks, and 86 percent of the smallest banks offered official checks to basic accountholders.

The majority of banks (65 percent) did not make official checks available to noncustomers. For the slightly more than one-third that did, the average fee charged was \$6.57, and the median fee was \$5.00.

Again, a higher share of larger banks offered official checks to noncustomers, and, on a median and average basis, they charged higher fees than other institutions. Fifty-four percent of the largest banks sold official checks to noncustomers, while about one-third of midsize and small banks did so. The median fee charged by the largest and midsize banks was \$7.75 and \$7, respectively, and \$5 for the smallest banks.

Check Cashing

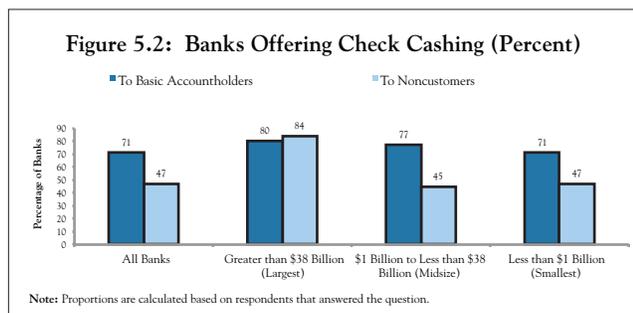
Payroll check cashing was the second most frequently offered auxiliary service to basic accountholders and the most frequently offered service to noncustomers. Seventy-one percent cashed payroll checks for basic accountholders, and 47 percent offered this service to noncustomers.

Among banks that offered check cashing, eighty percent of the largest banks, 77 percent of midsize banks, and 71

percent of the smallest banks cashed payroll checks for basic accountholders. Ninety-five percent of these banks indicated they cashed a \$250 payroll check for free, while 5 percent charged a fee. The average fee was \$5.61, and the median was \$5.00.

Among the 47 percent of banks that cash a payroll check for noncustomers, twenty-seven percent offered free payroll check cashing, while 73 percent charged a fee for this service and 53 percent did not offer it to noncustomers. The average check-cashing fee was \$6.52, and the median fee was \$5.00.

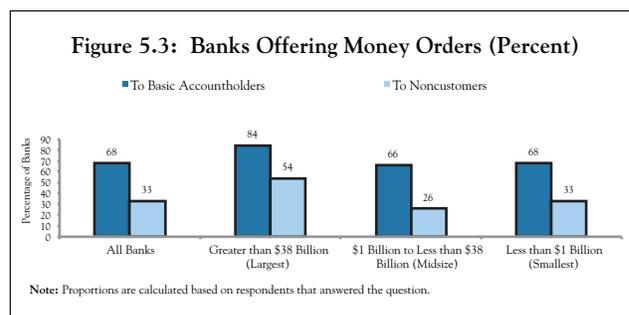
Eighty-four percent of the largest banks, and nearly one-half of midsize and the smallest banks offered payroll check cashing to noncustomers. The median fee was \$5.00. While the proportion of banks that reported they were providing this service for free to non-customers may seem high, it may be that at least some respondents were referring to a subset of payroll check cashing, such as payroll checks drawn on the institution.



Money Orders

Although most banks offered official checks to basic accountholders, the availability of money orders was less prevalent. Only 68 percent of all banks offered money orders to basic accountholders. Of those that did offer money orders, 29 percent provided them for free, and 71 percent charged a fee. The average money order fee was \$3.06, and the median fee was \$3.00 for a hypothetical \$250 money order. Eighty-four percent of the largest banks, 66 percent of midsize banks, and 68 percent of the smallest banks offered money orders to basic accountholders.

While most banks did not offer money orders to noncustomers (67 percent), 33 percent offered them for a fee. The average fee was \$4, and the median fee was \$3. Approximately one-half of the largest banks offered money orders to noncustomers (54 percent), while 26 percent of midsize banks and one-third of small banks did. On average, large and midsize banks charged higher fees (median \$5 fee) for money orders compared to the smallest banks (median \$3 fee).

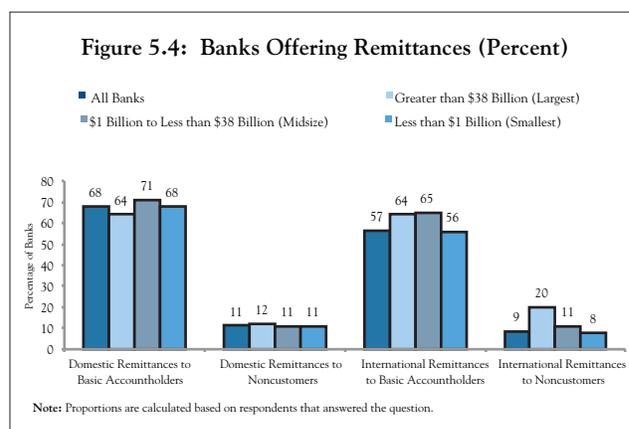


Domestic and International Remittances

Overall, banks were more likely to offer domestic remittances than international remittances to basic accountholders. Most banks, however, declined to offer either domestic or international remittances to noncustomers.

Sixty-eight percent of banks offered domestic remittances to basic accountholders, and 57 percent offered international remittances. A slightly greater proportion of large (64 percent) and midsize banks (65 percent) than small banks (56 percent) offered international remittances but the offering of domestic remittances was nearly identical (64 percent for the largest banks, 71 percent for midsize banks, and 68 percent for the smallest banks).

Fees for remittances varied depending on the type of remittance and the size of the financial institution. The median fee for basic accountholders for a \$250 domestic remittance was \$20, while the median fee for an international remittance to Mexico was \$40. The largest banks charged lower fees for international remittances and slightly higher fees for domestic remittances.



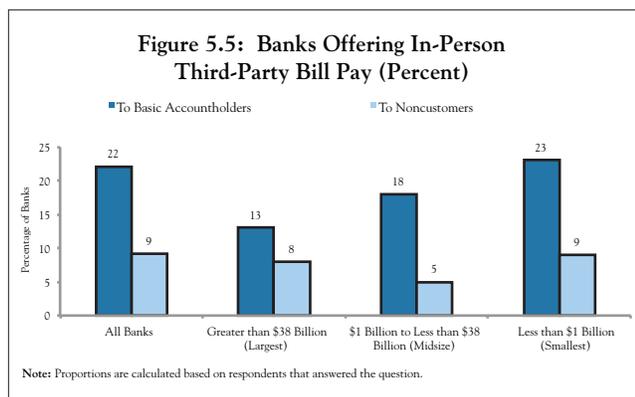
Remittances are rarely offered to noncustomers. Overall, only 11 percent of banks offered domestic remittances and 9 percent offered international remittances to noncustomers. Twenty percent of the largest banks, 11 percent of midsize banks, and 8 percent of the smallest banks offered international remittances to noncustomers. The median fee for a \$250 domestic remittance was \$20, while the

median fee for an international remittance to Mexico was more than twice this amount.

In-Person Third-Party Bill Payment

In-person third-party bill payments enable consumers to pay bills, such as utility bills, in person at the bank. These services are likely provided as a convenience to customers, but only a small proportion of banks offered them. Overall, 22 percent of all banks provided in-person third-party bill payments to basic accountholders and 9 percent of banks offered this product to noncustomers. Only 13 percent of the largest banks and 18 percent of midsize banks offered these payments to basic accountholders, while 23 percent of the smallest banks offered this service.

For basic accountholders, the average fee for these payments was \$2.86, and the median fee was \$1.00. Among the small proportion of banks that offered in-person third-party bill payments to noncustomers, the average fee was \$1.76 and the median fee was \$2.00.



5.2 Provision of Auxiliary Products by MSA Concentration of Branches

For some auxiliary products, such as check cashing, money orders, and official checks, high-MSA banks were less likely to offer products to noncustomers, compared to low-MSA banks. One possible explanation for this may be that low-MSA banks are similar to rural community banks that are more likely to know members of their community and provide these auxiliary services to noncustomers. Both midsize and the smallest low-MSA banks were more likely to cash payroll checks and offer money orders and official checks than were high-MSA banks. For example, for midsize banks:

- Fifty-two percent of low-MSA banks cashed payroll checks for noncustomers, compared to 41 percent of high-MSA banks.

- Thirty-two percent of low-MSA banks offered money orders to noncustomers, compared to 23 percent of high-MSA banks.

5.3 Auxiliary Products Offered at ATMs or Kiosks

The survey findings show that few banks provided auxiliary products to either basic accountholders or noncustomers at ATMs or kiosks. Only 8 percent of banks offered payroll check cashing at an ATM or kiosk, and only 5 percent of banks offered official checks or money orders in this manner. A similarly small proportion of banks offered noncustomers payroll check cashing, money orders, or official checks at an ATM or kiosk.

5.4 Network-Branded Reloadable Prepaid Cards

Network branded reloadable prepaid cards are cards branded with a payment network logo (i.e., Visa, MasterCard, Discover, and American Express) that generally can be used at any merchant or ATM that accepts cards issued on the payment network. These card accounts are not linked to a deposit account. Banks also may issue these cards on behalf of third-party businesses that offer prepaid cards to customers.

A small proportion of banks offered network-branded prepaid cards to customers or noncustomers. Among banks that responded, 23 percent offered network-branded reloadable prepaid cards to basic accountholders, while 14 percent offered prepaid cards to noncustomers. Thirty-two percent of the largest banks, 19 percent of midsize banks, and 24 percent of the smallest banks offer customers this kind of prepaid card. Large banks were somewhat more likely than midsize or the smallest banks to offer these cards to noncustomers (25 percent for the largest banks versus 11 percent for midsize banks, and 15 percent for the smallest banks). Few banks issued network-branded prepaid cards on behalf of a third-party business (7 percent). Twenty percent of the largest banks, 9 percent of midsize banks, and 7 percent of the smallest banks issued cards for that purpose.

5.5 Nontraditional Forms of Identification Accepted for Check Cashing

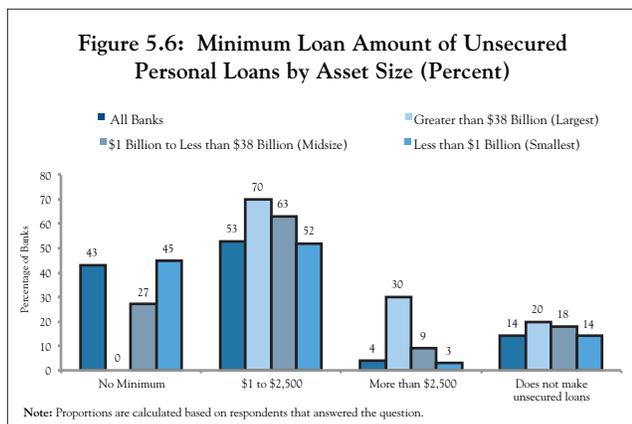
Among banks that cash checks for non-customers (39 percent), 54 percent accepted foreign passports and 39 percent accepted other foreign ID documents. A sizable majority of the largest banks accepted foreign passports or other foreign ID documents when cashing checks for noncustomers, nearly three-fourths of midsize banks and more than one-half of the smallest institutions also did so. Among banks that cash checks for non-customers, all of the largest banks, 66 percent of midsize banks, and 52 percent of the smallest banks accepted foreign passports.

A smaller percentage of all banks accepted other foreign ID documents from noncustomers. Among banks that cashed checks for noncustomers, 83 percent of the largest banks, 53 percent of midsize banks, and 38 percent of the smallest banks accepted other types of foreign ID documents.

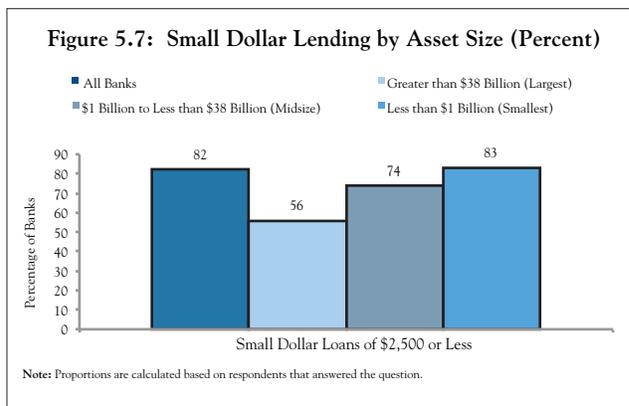
5.6 Unsecured Personal Loans

The survey included a number of questions regarding unsecured personal loans and bank policies related to such loans. Specifically, it asked about the minimum dollar amount of the smallest unsecured, personal loan available to customers. The survey also asked whether the repayment period is at least 90 days; whether the annual percentage rate (APR) is 36 percent or less, including upfront fees and interest; and if the underwriting process is streamlined such that the loan decision can be made within 24 hours.

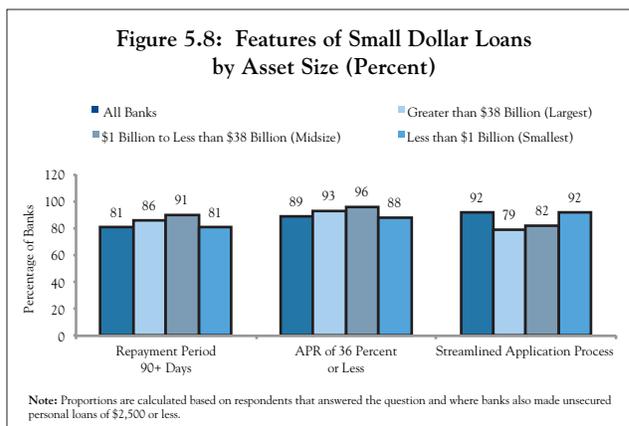
Among all banks, 88 percent offered unsecured personal loans and 12 percent reported that they did not offer such loans. Among banks that offered unsecured personal loans, 43 percent did not have a minimum loan amount and 53 percent had a minimum loan amount of \$2,500 or less but greater than zero. None of the largest banks reported making unsecured personal loans with no minimum loan amount requirement, while 27 percent of midsize banks and 45 percent of the smallest banks that offered unsecured loans did not require a minimum loan amount.



A large majority (82 percent) offered unsecured personal loans with no minimum or a minimum loan amount of \$2,500 or less (“small dollar loans”). Among all banks, 83 percent of the smallest banks, 74 percent of midsize banks, and 56 percent of the largest banks offered small dollar loans.



Among banks that offered small dollar loans, a large majority offered loans with a repayment period of 90 days or more, an annual APR of 36 percent or less, and streamlined underwriting to make a loan decision within 24 hours. Eighty-one percent of all banks with small dollar loans indicated that the repayment period on small, unsecured loans was 90 days or more. Eighty-six percent of the largest banks, 91 percent of midsize banks, and 81 percent of the smallest banks said they offered a repayment period of at least 90 days when they offered small dollar loans. The APR (including upfront fees) was reported to be at or below 36 percent at 89 percent of banks that offered unsecured personal loans. This was fairly similar across banks with different asset sizes. In addition, most banks could make a loan decision for small, unsecured loans in less than 24 hours. This was the case at 92 percent of the smallest banks, 82 percent of midsize banks, and 79 percent of the largest banks with such a product.



VI. Financial Education and Outreach

Free counseling was the most frequently chosen and highly rated financial education and outreach activity by banks, and K-12 schools were the most commonly identified locations for conducting financial education and outreach activities. Almost one-third of all banks participated in all four financial education and outreach activities included in the survey.

6.1 Types of Financial Education and Outreach

The survey asked about the following types of financial education and outreach activities: teaching basic financial education topics, funding community partners, providing technical expertise, and offering free counseling.

Free counseling was reported as the most frequently cited and highly rated financial education and outreach activity targeted to the needs of unbanked and underbanked consumers. Overall, 81 percent of banks said they offered free counseling to underserved consumers and 58 percent rated this activity as very effective or effective. By asset size, 96 percent of the largest banks said that they offered this type of education and 83 percent of these institutions rated its effectiveness as very effective or effective. Findings are similar for midsize and smaller banks, although the proportions were somewhat lower.

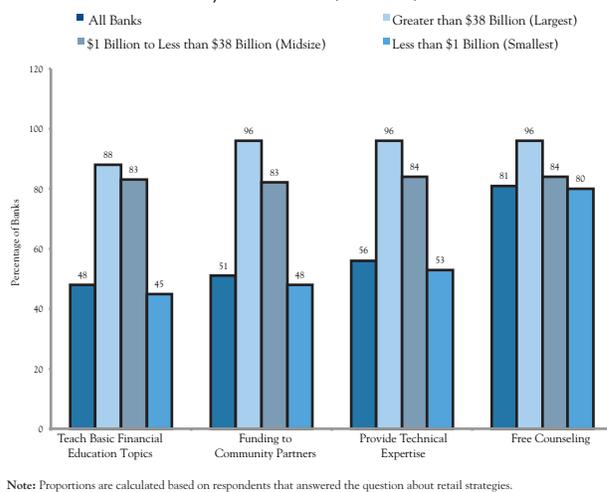
Almost one-third of all banks (30 percent) participated in all four financial education and outreach activities included in the survey. Eighty-four percent of the largest banks, 61 percent of midsize banks, and 27 percent of the smallest banks participated in all four activities.

6.2 Locations for Financial Education and Outreach

The survey asked banks that participated in financial education and outreach activities about the locations where these activities took place, including public fairs and gatherings, workplaces, K-12 schools, government sites, bank branches, vocational schools and colleges, military installations, and nonprofit and community organization sites.

K-12 schools were the most common locations cited by banks (74 percent) for conducting financial education and outreach activities. Ninety-two percent of the largest banks, 87 percent of midsize banks, and 73 percent of the smallest banks engaged in financial education at K-12 schools. Seventy-seven percent of the largest institutions rated this location as very effective or effective, compared to 63 percent of midsize banks and 56 percent of the smallest banks.

Figure 6.1: Financial Education and Outreach by Asset Size (Percent)



6.3 Financial Education and Outreach by Branch Location

High-LMI banks (with branches concentrated in LMI neighborhoods) were somewhat more likely to engage in numerous financial education and outreach activities than were low-LMI banks, although in several cases the differences appear to be relatively small.¹⁵ As an example, almost 48 percent of high-LMI banks offered financial education and outreach at nonprofit, faith-based, or community organization sites, while 38 percent of low-LMI banks used these sites.

High-MSA banks were modestly more likely to offer financial education and outreach at bank branches, workplaces, and nonprofit, faith-based, or other community organization sites than were low-MSA banks. Among high-MSA banks, 58 percent offered financial education and outreach at bank branches, while 48 percent of low-MSA banks provided these activities in bank branches.

¹⁵ In all locations except workplaces, the difference in the proportion of banks conducting financial education and outreach between high- and low-MSA banks is significantly different. However, significant differences do not exist for K-12 school sites for high- and low-LMI banks.

VII. Potential Challenges to Offering Financial Products and Services

Banks were more likely to view fraud, underwriting, profitability, regulatory environment, and consumers' lack of understanding about financial products and services as major obstacles and less likely to identify product development, product marketing, nonbank competition, lack of customer demand, or lack of familiarity with the banking needs of unbanked and underbanked consumers as major obstacles. When asked about specific potential regulatory concerns, a sizable proportion of institutions stated that customer ID requirements, Bank Secrecy Act (BSA)/anti-money laundering requirements, and fair lending/compliance risk were major obstacles in offering financial products and services to underserved consumers, while a relatively smaller proportion of banks viewed third-party relationship risk as an obstacle.¹⁶

Banks were asked about bank business, product-related, and regulatory challenges as obstacles to reaching unbanked and underbanked consumers. In general, banks were more likely to view fraud, underwriting, profitability, regulatory environment, and consumers' lack of understanding about financial products and services as major obstacles in meeting the needs of underserved consumers. For example, about one-third of banks reported that fraud and the regulatory environment were major obstacles. By comparison, banks were less likely to view product development, product marketing, nonbank competition, lack of customer demand, or lack of familiarity with the banking needs of unbanked and underbanked consumers as major obstacles. As an example, less than 6 percent of all banks said that lack of familiarity with the banking needs of underserved consumers was a major obstacle.

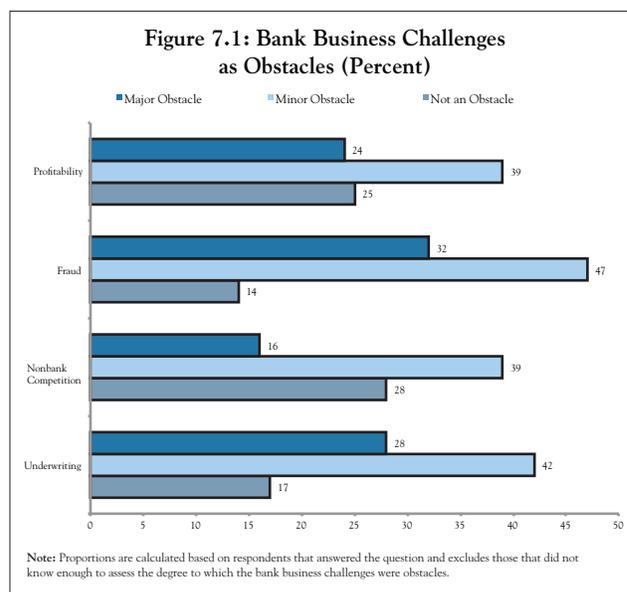
For banks that considered nonbank competition a major or minor obstacle, the most frequently cited sources of nonbank competition were: retail businesses offering general purpose reloadable prepaid cards (cited most frequently by the largest banks), check cashers (cited most

frequently by midsize banks), and payday lenders (cited most frequently by the smallest banks).¹⁷

Thirty-five percent of banks reported that the regulatory environment was a major obstacle and an additional 30 percent cited it as a minor obstacle. Among these respondents, between 35 and 40 percent reported that customer ID (40 percent), BSA/anti-money laundering requirements (34 percent) and fair lending/compliance risks (35 percent) were major obstacles in offering financial products and services to underserved consumers. In contrast, a relatively smaller proportion of banks (close to 20 percent) stated that third-party relationship risk was a major obstacle.

7.1 Bank Business Challenges

Bank business challenges include bank profitability, potential fraud issues, difficulties with underwriting, and competition from nonbank sources.



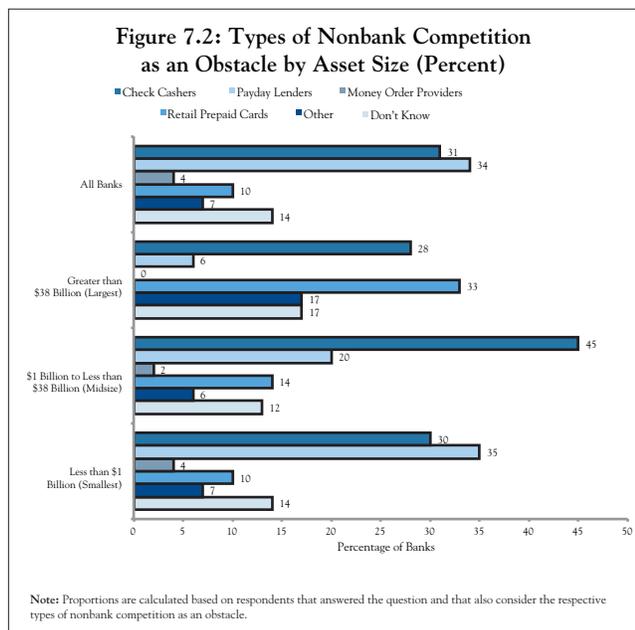
Profitability was reported as a major obstacle in offering financial products and services to unbanked and underbanked consumers by 24 percent of banks, including 24 percent of the smallest banks, 27 percent of midsize banks, and 46 percent of the largest banks. Fraud was viewed as a major obstacle by 32 percent of banks, including 40 percent of the largest banks, around one-third of midsize (35 percent), and 32 percent of small banks. Roughly 16 percent of all banks, including one in four of the largest or midsize banks and 15 percent of the smallest banks

¹⁶ FDIC Financial Institution Letter FIL-44-2008 defines third-party risk as including all entities that have entered into a business relationship with the financial institution, whether the third party is a bank or a nonbank, affiliated or not affiliated, regulated or unregulated, or domestic or foreign. The use of third parties in no way diminishes the institution's responsibility to ensure that the third-party activity is conducted in a safe and sound manner and in compliance with applicable laws, regulations, and internal policies.

¹⁷ The survey asked questions about sources of nonbank competition to those respondents that said that nonbank competition was either a "major" or "minor" obstacle. The same methodology was used to identify types of regulatory challenges as obstacles. In this case, respondents were asked if the regulatory environment was a "major" or "minor" obstacle, and if so, the respondent was asked about types of regulatory challenges.

reported that nonbank competition was a major obstacle. Twenty-eight percent of banks reported that underwriting was a major obstacle, with results fairly consistent across large, midsize and small banks.

Among banks that considered nonbank competition a major or minor obstacle, the source of competition varied by bank size. Among the largest banks, the most frequently cited source of nonbank competition was retail business offerings of network branded reloadable prepaid cards. Midsize banks reported check cashers and the smallest banks reported payday lenders as their most frequent source of nonbank competition.



7.2 Product-Related Challenges

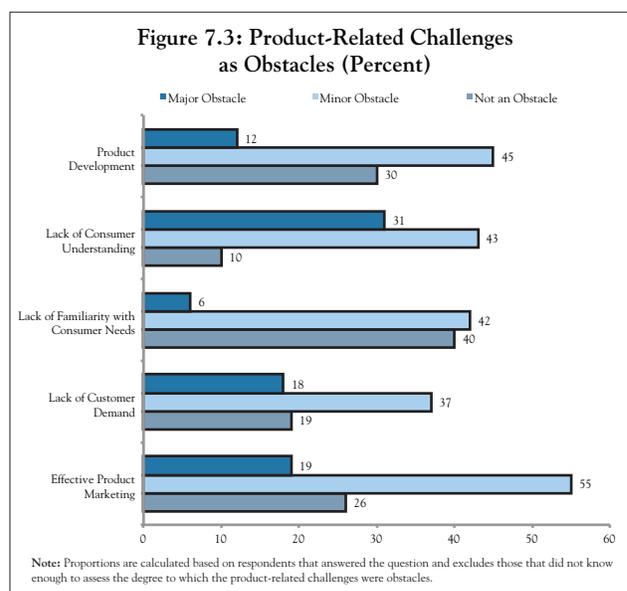
Product-related challenges include product development, lack of consumer understanding about financial products and services, lack of familiarity with the financial needs of the underserved, lack of customer demand, and product marketing.

Regardless of a bank's size, a relatively small proportion of banks (12 percent) reported that product development was a major obstacle to offering financial products and services that meet the needs of unbanked and underbanked consumers. Eight percent of the largest banks, 15 percent of midsize banks, and 12 percent of the smallest banks said that product development was a major obstacle. In addition, a reasonably large proportion of banks (31 percent) stated that consumers' lack of understanding about financial products and services was a major obstacle in meeting the needs of underserved consumers. Forty percent of the largest banks and roughly one-third of midsize (35 percent) and the smallest (31 percent) banks

said consumers' lack of understanding was a major obstacle.

For banks of varying size, a very small proportion stated that lack of familiarity with the financial or banking needs of unbanked and underbanked consumers was a major obstacle in offering financial products and services. In particular, 4 percent of the largest banks, 7 percent of midsize banks, and 6 percent of the smallest banks said that lack of familiarity was a major obstacle in meeting the financial needs of these consumers.

Lack of customer demand was a major obstacle to offering financial products and services to unbanked and underbanked consumers among a relatively low proportion of banks, with 8 percent of the largest banks, 14 percent of midsize banks, and 18 percent of the smallest banks reporting this challenge as a major obstacle. Close to one out of every five banks reported that effectively marketing products to unbanked and underbanked consumers was a major obstacle to offering financial services to these consumer segments, including 20 percent of the largest banks, 24 percent of midsize banks, and 19 percent of the smallest banks.

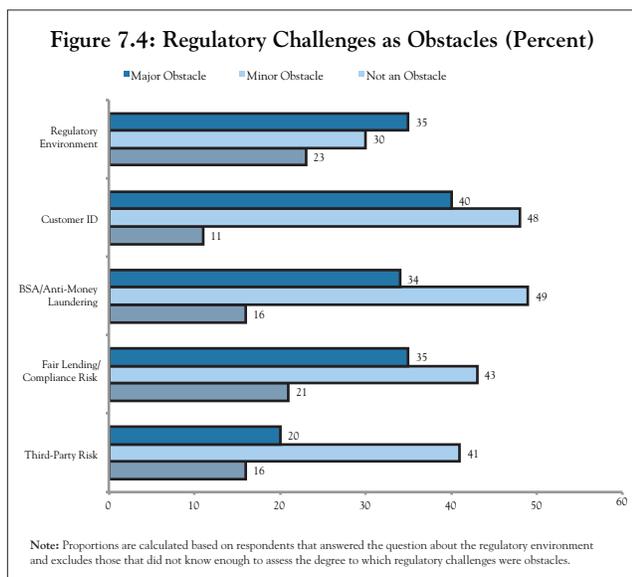


7.3 Regulatory Challenges

Banks were asked whether the overall regulatory environment was an obstacle in offering financial products and services to unbanked and underbanked consumers. Respondents were also asked about specific regulatory topics, including customer ID, Bank Secrecy Act (BSA)/anti-money laundering requirements, fair lending/compliance, and third-party relationship risk.

The regulatory environment was cited as a major obstacle by roughly one-third of institutions. Specifically, 33 percent of the largest banks, almost 32 percent of midsize banks, and close to 35 percent of the smallest banks reported that the regulatory environment was a major obstacle. Banks reporting that the regulatory environment was either a major or minor obstacle were further asked about whether customer ID requirements, Bank Secrecy Act (BSA)/anti-money laundering requirements, and fair lending/compliance risks were major obstacles in offering financial products and services to unbanked and underbanked consumers. The survey findings show that a reasonably large proportion of banks reported that customer ID requirements (40 percent), Bank Secrecy Act (BSA)/anti-money laundering requirements (34 percent), and fair lending/compliance risks (35 percent) were major obstacles in offering financial products and services to underserved consumers.

midsize (33 percent) or the smallest banks (36 percent). Six percent of the largest banks, 15 percent of midsize banks, and 20 percent of the smallest banks reported third-party risk as a major obstacle in offering financial services to unbanked and underbanked consumers.



By asset size, customer ID concerns were reported as a major obstacle by around 40 percent of the smallest and midsize banks and 29 percent of the largest banks. BSA/anti-money laundering was described as a major obstacle by 18 percent of the largest banks, 35 percent of midsize banks, and 34 percent of the smallest institutions. Fair lending/compliance was said to be a major obstacle by 24 percent of the largest banks, and roughly one-third of

VIII. Opportunities for Banks

Findings from the Bank Survey provide valuable insights into the efforts financial institutions have undertaken and the challenges they have encountered in expanding financial services to underserved consumers. This section discusses opportunities that institutions could explore to expand access to mainstream financial services and help meet the needs of unbanked or underbanked consumers.

1. Expand Offerings of Basic, Low-Cost Checking and Savings Deposit Accounts

The Bank Survey finds that on the most basic checking deposit account without direct deposit, 48 percent of banks had minimum opening balance requirements of \$100 or more and 22 percent had monthly maintenance fees of more than \$3. For basic savings accounts, the median opening and average balance requirements to avoid a fee were \$100.

To broaden economic inclusion efforts, banks should consider offering low-cost electronic, card-based transaction deposit accounts that do not allow overdraft and NSF fees. The survey found that around one in five banks offered electronic, card-based accounts and some evidence that those accounts which were strictly card-based and electronic (no paper check writing feature) had lower average opening balance requirements and monthly maintenance fees. The design of such accounts also reduces the overdraft risk banks face with accounts that permit check writing and may make it possible to eliminate NSF and overdraft fees, further reducing costs for consumers. These accounts may be even more attractive to consumers when paired with basic savings accounts with low minimum balance requirements.

2. Offering Additional Transaction Services to Underserved Households

Consumers' use of nonbank financial services providers to meet their needs points to market opportunities for insured depository institutions. Some consumers, for example, use money orders in lieu of cash or checks to pay monthly rent or utility bills. Yet, one in three banks did not offer money orders to accountholders and two-thirds did not offer this product to noncustomers. In addition, unbanked consumers frequently need a way to cash checks. And consumers, especially those with family outside the US, often use nonbank financial services providers to make domestic or international remittances.

The Bank Survey found that 71 percent of banks cashed payroll checks for basic accountholders and 47 percent offered this service to noncustomers. Moreover, one-half and two-thirds of banks offered international and domestic

remittance products, respectively, to accountholders, but only nine and eleven percent of banks offered international and domestic remittance products, respectively, to noncustomers. Banks seeking to expand financial services to underserved consumers could consider offering a broader range of auxiliary transaction services to both accountholders and noncustomers

3. Enhance Small-Dollar Loan Product Marketing

Most banks (82 percent) offered unsecured personal loans with a minimum loan amount of \$2,500 or less, with many setting no minimum loan amount. However, 20 percent of households that recently obtained credit from payday lenders and almost 18 percent that used pawn shops did so primarily because they thought that banks did not offer small-dollar loans. While some proportion of borrowers that obtain small dollar credit from nonbank providers may not qualify for bank loans (about one-third of banks reported that underwriting was a major obstacle in offering financial products to unbanked and underbanked consumers), the gap between the small dollar loan availability reported by banks and perceived by consumers suggests that banks could improve marketing of these products.

4. Utilize Partnerships with Community Organizations to Promote Checking and Savings Account Ownership

Community outreach through collaborations with community groups was identified as the most effective strategy for developing relationships with these populations. Close to one-half of all banks promoted both checking and savings accounts through partnerships with community organizations such as faith/community-based organizations, volunteer income tax assistance (VITA) sites, and schools. Even so, close to 51 percent of all institutions do not use partnerships. As such, a relatively large proportion of banks could benefit from expanding collaborative efforts to promote access to mainstream deposit accounts.

5. Assess Whether Expanded Retail Strategies Can Improve Relationships with Unbanked and Underbanked Consumers

Regardless of a bank's size, the most frequently chosen retail strategies to make branches more convenient or welcoming to consumers were automated telephone banking, multilingual staff, and off-premise ATM locations. Banks engaged in these strategies generally reported that they were very effective or effective tools for developing a relationship with unbanked and underbanked consumers. Banks that have not deployed certain retail strategies (e.g., 63 percent of banks do not offer extended hours or services on weekends) should consider whether adding such options could better position the institution to build relationships with underserved consumers.

Conclusion

The findings in this report provide valuable information to financial institutions and other stakeholders interested in expanding financial products and services to unbanked and underbanked consumers. Based on responses to this 2011 Bank Survey, five opportunities are highlighted that banks should consider taking advantage of to broaden access to mainstream financial services to the underserved: (1) expand offerings of basic, low-cost checking and savings deposit accounts, (2) offer additional transaction services to underserved households, (3) enhance small-dollar loan product marketing, (4) utilize partnerships with community organizations to promote checking and savings account ownership, and (5) assess whether expanded retail strategies improve relationships with unbanked and underbanked consumers.