Comments on the FDIC’s Proposed Templates for Safe, Low-Cost Transactional and Basic Savings Accounts

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State Employees’ Credit Union®
Raleigh, North Carolina
Introduction

State Employees’ Credit Union (SECU) is pleased to comment on the Federal Deposit Insurance Corporation’s (FDIC’s) proposed templates of potential features for safe, low-cost transactional and basic savings account products for low and moderate income (LMI) consumers. As a not-for-profit cooperative, SECU operates with a “People Helping People” philosophy and “Do the Right Thing” mentality. In reality, SECU’s Board of Directors and management strive to design products and services that offer true consumer value and keep money where it belongs --- in the pockets of consumers. The guiding principles in the development of the FDIC proposed templates align well with SECU’s principles. We endorse and encourage your goals of having low and transparent fees; being FDIC-insured; being subject to consumer protection laws, regulations and guidelines; being simple to use; including easily understandable terms and conditions; and representing sustainable, profitable product offerings for financial institutions.

Of primary concern to SECU is that LMI consumers be offered products that have low and transparent fees and are simple to use on an everyday basis, i.e. products that can bring the “unbanked” back into the traditional financial payments system on a consumer-friendly and consumer-fair basis. For LMI consumers, the inability to obtain such services in today’s marketplace stems from a lack of consumer financial literacy, and from the misconception by for-profit (and many not-for-profit!) institutions that LMI products and services are not profitable and will create a financial burden.

SECU applauds the efforts of FDIC to encourage banks to offer safe, low-cost transactional and basic savings accounts and hopes that this summary of some key SECU sustainable products (some newly introduced and some longstanding) may prove beneficial to the FDIC in designing LMI underserved products(s). The key SECU products described do work profitably in the financial marketplace – these products are fact, not theory!

Since 1980, SECU has been offering low-cost checking services to its members and offers just one flavor of traditional checking account. Over 800,000 SECU members currently take advantage of the product! SECU’s checking account carries no minimum balance requirement, earns interest and has a $1 monthly maintenance fee (the $1 fee is, unless instructed otherwise, donated by the member to the SECU (501c(3) Foundation). With this checking product, SECU offers debit cards for purchases and ATM transactions, an online BillPay service (no fee for the first 50), and 50 free checks per statement period. The checking account is accessible via ATMs, ASK SECU Voice Response Service, and online internet Member Access; via one of 230 SECU branches and a 24/7 Call Center; or via automated drafts and deposits. The non-sufficient funds fee is $12 and the stop payment fee is $8. Additionally, SECU offers “regular” overdraft protection without charge on this checking account. Members can sign up to have funds transferred from secondary deposit/loan accounts to checking to cover any potential non-sufficient funds item. The transfer fee for this service is currently $.50 per transfer.
Over the past two years, SECU has aggressively worked to curb the number of overdrafts experienced by members. In 2010, SECU introduced NSF Fee Free Days – waiving the $12 fees on two separate days during the year. Regardless of the number of items marked as NSF on either of the two days, SECU will return the items to the payee but waive the SECU member’s NSF fees, helping to ease the financial burden related to such items.

In the coming months, SECU will also introduce a program to waive the $.50 transfer fees on overdraft transfers for two days during the year. Along with these waiver programs, the Credit Union has enhanced its systems to automatically initiate an alert to members of potential “red flags” on their checking accounts. A mobile text alert system and/or online messaging alert system now automatically notifies members of items such as low balances or debited checking account items. Additionally, SECU has migrated to a 5:30 pm “end of day” business cutoff in its branches and online systems, preparing the organization for an additional service to be offered in the summer of 2010. This new “end of day” program --- “Another Chance” --- will provide an alert to members when a check is attempting to post to their checking account and sufficient funds are not in place to cover the item. The early morning alert will notify members to make a branch deposit by 5:30 pm in order to avoid all potential NSF fees.

And recently, SECU introduced a new product designed specifically for certain demographics, including those without traditional checking services. SECU’s new Cash Points Global (CPG) account/card could serve as a low-cost transaction account model for FDIC to carry forward to its member institutions. Recent FDIC survey data shows, as quoted in Rachel Schneiders’ PaymentsSource May 2010 article, “New Questions for a Maturing Prepaid Market,” there is unanimous agreement that serving consumers well is the goal. Agreed upon in the survey are the following: all fees, terms and conditions should be clearly disclosed before the purchase; mandated FDIC insurance is passed through to the cardholder; and prepaid cardholders have the same lost or stolen card protections as credit cardholders. The following information introduces State Employees’ Credit Union’s Cash Points Global product, and SECU hopes the Federal Deposit Insurance Corporation will consider its viability as a “best practices,” low-cost transaction account product. SECU specifically addresses the FDIC’s comment questions at the end of the Cash Points Global (CPG) summary. We would be happy to share information on the product with the FDIC or any interested institution.
Cash Points Global (CPG) is a non-interest bearing controlled spending account with electronic access only. CPG debit transactions are limited to the available funds in the account. “Cash Points” because you can get cash at most ATMs, retailers, and financial institutions; “Global” because with its Visa (logo) connection it can be used worldwide! The account has no checks and no paper statements. The CPG plastic card is the primary access device. Every transaction must be authorized and approved as it occurs, so the consumer is always “in control.” If funds are not available, the transaction is declined, as the account has no associated overdraft or NSF fees. Although the CPG account has similar features, the CPG card is neither a prepaid, reloadable card, nor a traditional checking account!

Features of the Cash Points Global Account/Card

The account is designed as an individual account only. Cash Points Global (CPG) is a non-interest bearing controlled spending account with electronic only access through the CPG card. There are no checks and no paper statements, and since all transactions are limited to the available funds in the account, no overdraft or NSF fees are incurred. There is no minimum deposit requirement to open a CPG account and the account carries a $1 monthly maintenance fee.

Deposits and transfers are accepted into the account from all electronic, automated delivery channels (ACH, direct deposit, funds transfer, wire, etc.) or can be made at any SECU branch or Cash Points ATM location. CPG accounts can utilize SECU’s BillPay services for electronic payments; however, no other ACH debits are allowed on the account. While the account can be a funding account for SECU loan advances, it can also serve as a distribution account for other SECU savings or CD accounts.

One active Cash Points Global card is allowed per active Cash Points Global account, and no additional accounts can be added to the card. As a consumer-friendly feature, the account will be allowed to go to a zero balance and not purge. CPG cards can be personalized, a cardholder photo may be added for additional security, and cards will carry a three-year expiration date with an automatic reissue. For added convenience, Cash Points Global accounts can be added to other traditional debit cards owned by the consumer at SECU to allow for internal funds transfers among accounts.
Targeted Audience

Cash Points Global is the perfect account for consumers who cannot effectively manage traditional checking services and consumers who wish to limit their financial exposure to loss, fraud, or the inordinate account penalty fees sometimes assessed by traditional debit and credit cards. This demographic could include consumers attending high school or college, those who frequently travel, or those whose traditional checking accounts may have been closed due to their inability to monitor and budget their funds. Ideal candidates for Cash Points Global might be:

- **Frequent travelers**
  Travelers Cheques have traditionally been used by consumers for travel purposes but have become less popular in recent years, being replaced with traditional debit cards, credit cards or in some cases, gift cards. In the past few years counterfeit Travelers Cheques have reduced merchant acceptance and frustrated consumers. Many consumers also prefer to segment their vacation dollars from their regular, everyday checking account. The Cash Points Global card carries the globally recognized, globally accepted Visa logo, and is a wonderful alternative to Travelers Cheques. Savings may also come from lower foreign exchange fees through Visa.

- **Students**
  Students heading off to college are ideal candidates for the new Cash Points Global account. SECU typically recommends that students open a checking account with a traditional check card. Some parents, however, may have concerns with the responsibilities tied to a traditional checking account and view a controlled spending account as a preferred option. With a controlled spending account, parents have the ability to add funds to the account/card as deemed necessary, while forgoing the risk of any overdrafts or late fees which might be incurred by the student.

- **Frequent online shoppers**
  Many consumers now make purchases online and fear the greater risk of fraudulent activity that could potentially occur at an unsecure retail site. While SECU does not discourage accountholders from utilizing current debit or credit cards for online purchases, Cash Points Global is a great option for online shoppers who want to limit the fraud risk exposure to their traditional checking account balance. The money placed in the Cash Points Global account is the only money in the account ---there are no unused lines of credit at risk and transactions in the controlled spending account are limited to the balance in the account.
• **Those using gift cards to pay monthly bills online**
  Numerous individuals are now purchasing SECU gift cards to use when paying bills online. In many cases, the consumer may not have a checking account but still wants the option of online bill pay. The Cash Points Global card will enable this group to handle their financial affairs in a traditional manner, including using SECU’s BillPay service, but with a controlled account.

• **Individuals without a checking account**
  Anyone can now be financially empowered with an SECU Cash Points Global account, even those whose traditional checking accounts may have been closed by SECU in the past. As Cash Points Global is a controlled spending account, the requirement of day-to-day account monitoring and management has been minimized, making the CPG account a beneficial option for consumers who currently have no checking relationship. The worries of possible overdrafts and NSF fees have also been eliminated with the control features tied to this product. Direct deposit of payroll, benefit payments, or any regularly recurring member deposit may be routed to the CPG account enhancing convenience, security, and eliminating “check cashing” service fees.

• **Consumers who need account access for tax refund deposits**
  The Cash Points Global card will give individuals another option for access to tax refunds with a consumer-friendly product rather than the often expensive products of industry standard tax preparation providers. Every tax season, SECU sees hundreds of thousands of transactions at Cash Points ATMs from tax preparation provider cards and these cards carry hefty fees. Since Cash Points Global can accept various deposits including ACH/Direct Deposits, consumers can also utilize this controlled spending account to have their tax refund directly deposited to SECU.

**Cash Points Global... Similar to a Prepaid Card, yet Different**

Prepaid cards are often used as alternatives to traditional financial transaction accounts and are typically seen in the marketplace carrying the term “general purpose reloadable card.” Touted as convenient to consumers who feel uneasy about traditional financial accounts or credit cards, prepaid cards are frequently targeted by the providers to specific demographic populations as an alternative to check cashers. Most prepaid cards look like other debit cards with network logos of Visa, MasterCard or Discover and the word “debit” printed on the front of the card; but these cards are very different. Not all prepaid cards provide adequate protection against theft of funds. Additionally, some prepaid card funds are held “in an aggregate account,” meaning all funds from the individual consumers purchasing the cards are pooled together in one lump sum by the issuer. As a result, there is not an individual transaction account tied to each card and deposited funds are not individually insured.
While these cards offer an alternative to traditional financial accounts, they often come with high fees and/or multiple fees that are very expensive for the consumer. Fees can include the following: initiation fees, monthly fees, balance inquiry fees, point-of-sale transaction fees, customer service fees, fees to add or load funds, or dormancy fees.

Although Cash Points Global’s description and convenience may resemble a prepaid card, CPG is NOT a prepaid card. It is SECU’s alternative to a prepaid card in the form of a controlled spending account. When designing the Cash Points Global account/card, State Employees’ Credit Union kept the consumer in mind at all times and developed a product that would be the most beneficial for the consumer in terms of cost, convenience, safety and accessibility. While the Cash Points Global card will carry the Visa logo and the word “debit,” it is distinctly different from an industry standard prepaid reloadable card, as:

1. The Cash Points Global card will be tied to an individual account and the funds will not be “pooled” as they are with most prepaid cards. This provides full federal deposit insurance coverage for the member, plus the cardholder receives the same Visa $0 liability protection as all other SECU debit and credit cards.

2. There is no third party card issuer --- this is an SECU product and as such, is fully supported by the Credit Union.

3. While industry-standard prepaid cards offer an alternative to traditional accounts, prepaid cards typically come with high fees and are quite expensive for the consumer. There are just a few fees associated with SECU’s Cash Points Global account/card. Those are:

   - A $1/month maintenance fee
   - A standard lost card replacement fee of $8
   - Any applicable PLUS ATM usage fees of $.35 or $.75, when the SECU member uses a non-SECU owned ATM for inquiry or withdrawal.

4. The new account can be added as a secondary account to other SECU debit cards owned by the same member for the convenience of internal transfers.

5. The account can go to a $0 balance and not purge.
Key differences between CPG and the industry-standard prepaid card

<table>
<thead>
<tr>
<th>Fee Description</th>
<th>Industry Prepaid Card</th>
<th>Cash Points Global Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Issue Fee</td>
<td>$3.00</td>
<td>$0</td>
</tr>
<tr>
<td>ATM Cash Transaction (Domestic)</td>
<td>$2.00</td>
<td>$0</td>
</tr>
<tr>
<td>ATM Cash Transaction (International)</td>
<td>$2.00</td>
<td>$0</td>
</tr>
<tr>
<td>ATM Balance Inquiry</td>
<td>$1.00</td>
<td>$0</td>
</tr>
<tr>
<td>Monthly Maintenance Fee</td>
<td>$5.00</td>
<td>$1.00</td>
</tr>
<tr>
<td>Point-of-Sale Transaction Fee</td>
<td>$0 for most but could be as high as $10/month</td>
<td>$0</td>
</tr>
<tr>
<td>Teller Cash Transaction Fee</td>
<td>$2.00</td>
<td>$0</td>
</tr>
<tr>
<td>Replacement Card Fee (lost or stolen)</td>
<td>$10.00</td>
<td>$8.00</td>
</tr>
<tr>
<td>Rush Delivery of a Card</td>
<td>$25.00</td>
<td>$15.00</td>
</tr>
<tr>
<td>Foreign Transactions*</td>
<td>2%</td>
<td>1% for multi-currency transactions and 0.8% for single currency transactions</td>
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Note: *Any network or conversion fees (Visa Fees) will apply.

Thoughts on Public Comment Items

While SECU considers the Cash Points Global card/account a viable, safe, low-cost transaction account option for any LMI consumers to utilize, the Credit Union offers the following comments on the FDIC’s specific questions:

- What are the expected benefits to consumers using safe, low-cost transactional and basic savings accounts? Benefits include not only bringing the “unbanked” back into the traditional financial payments system, but also providing those who lack financial literacy with the means to obtain a fair “good deal” in today’s marketplace, as consumer protections will be in place within such accounts.

- If check-writing is permitted, should there be a maximum number of checks that can be written each statement cycle? If so, at least how many checks should be allowed to be written each statement cycle? SECU believes there is no need to offer checks with such a product, as a
prepaid-type account can fully accommodate the needs of LMI consumers. Likewise, there should be no need for a paper statement to be delivered to the LMI consumer. And, since Bill Pay systems are ubiquitous in the financial industry, this feature can easily be incorporated into an LMI consumer’s transactional account as an option.

- What is an appropriate range for "low fees" necessary to offset some of the financial institution’s costs associated with offering a transactional account? With no checks or paper statements, and with automated systems, the fees necessary to offset financial institution costs should be extremely low. As a not-for-profit cooperative, SECU designs products and services to cover costs, but not to make money. As such, the Credit Union is able to offer its CPG account/card for a $1 monthly fee.

- What constitutes a reasonable range of competitive fees for other financial services (e.g., money orders, check cashing, bill payment, domestic and international wire transfers, and other financial services) offered to customers and noncustomers? Bill payment services should be offered free of charge to the LMI consumer in conjunction with a low-cost transactional account. In addition, with no checks issued on the account, there should be no need for a check cashing charge. While money order and/or domestic and international wire transfers may carry a charge as determined by the financial institution, other transaction fees such as ATM and/or Point-of-Sale fees should be waived with such an account.

- What are some ways of minimizing the costs of offering transactional and savings accounts with attractive features for LMI underserved consumers? An all-electronic account will help to mitigate operating costs. An all-electronic account includes features such as a card-only account, E-statement-only option, online access services, a direct deposit feature, online Bill Pay and ATM/Point-of-Sale access.

- Are there types of transactional accounts other than basic checking, basic savings accounts, and account-based debit cards that would be attractive to both LMI underserved consumers and insured financial institutions? No additional transactional account types should be needed by the LMI consumer, as long as the FDIC’s consumer-friendly designed accounts initiative results in adequate “safe” accounts for the LMI demographic. Long-range retirement account needs might also be explored by the FDIC, as well as short and long-term consumer-friendly (non risk based) lending products.
About State Employees’ Credit Union

SECU is a not-for-profit financial cooperative serving North Carolina’s state and public school employees and their family members. Founded in 1937, the Credit Union is designed to promote the economic and financial well-being of its members through low-cost services and a program of consumer education. Members of the Credit Union pool their money and lend it to one another at fair rates of interest, while receiving low-cost financial services. SECU serves members through a defined field of membership and each member has equal ownership. Member-owners democratically control the Credit Union and can exercise one vote to determine the direction of the organization. The direction and management of State Employees’ Credit Union, as a cooperative, rely heavily on volunteers who serve without compensation.

In 2010, State Employees’ Credit Union has a presence in all 100 North Carolina counties, with 231 branches and more than 1,000 Cash Points Automated Teller Machines (ATMs). Throughout the years, SECU has maintained the following strategy with regard to the development and delivery of products and services:

Mission
To be the trusted provider of financial services to every eligible member and to enhance the value of their lives and financial well-being while maintaining our fiscal strength.

Values
To ensure that every member receives equitable and fair treatment and respect; that we keep all products as simple as possible; that we provide better value than everyone else; and that we provide convenient access to services through facilities and technology.

Vision
To challenge State Employees’ Credit Union to provide opportunities for members to improve their economic and social condition; to encourage thrift among members; to create sources of credit at fair and reasonable rates of interest; and to broaden the economic awareness of members through planned programs of consumer protection.

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