Proposed Templates for Safe, Low-Cost Transactional and Basic Savings Accounts

The Federal Deposit Insurance Corp (FDIC) has requested public comment on templates describing potential features for safe, low-cost transactional and basic savings account products for low-moderate income individuals (LMI).

Most financial institutions currently offer some type of low or no cost checking and savings account. Additional services are also available for these types of accounts, such as ATM/Debit cards, automatic savings transfers, direct deposit, etc., usually at no charge. To effectively maintain a checking or savings account it is beneficial for parties when consumers are taught how to maintain accounts and to understand the basic principals of the handling their finances. With commitment to education consumers will also learn to budget and meet monthly commitments. This knowledge and confidence is passed through households and generations.

As indicated in the CFSI Underbanked Consumer Study, Released June 8, 2008, of the 2,799 underbanked adults included in the study, 75% of the survey respondents were considered to have a subprime or thin/no-file credit scores. By providing financial education to the study participants the credit scores may have increased, thereby increasing their financial opportunities. 45% had children in the household. If we are able to reach households through financial education taught in schools, we would reach nearly one-half of these underbanked households.

An article in the Spring 2010 Federal Reserve Bank of San Francisco publication, Community Investments, titled *"Community Change Initiatives from 1990-2010: Accomplishments and Implications for Future Work"* by Anne C Kubisch, Patricia Auspos, Prudence Brown and Thomas Dewar, The Aspen Institute, Roundtable on Community Change articulate:

> **"Intentionality in Action**
> Where community interventions invested <u>deliberate</u> program effort, they counted program successes and improved outcomes. CCIs (comprehensive community initiatives) that did not make deliberate investments or made assumptions that investments in one domain would have spill-over effects in others, did not improve outcomes. … <u>Even when an intervention aims to increase a less tangible outcome, such as social capital, investments must be intentional and not simply the hoped-for-by-product of other strategies.</u> Again, this lesson may seem readily apparent, but the problem becomes acute in an initiative that works across multiple dimensions and aims for comprehensiveness…"

By requiring financial institutions to create or adhere to the standard low-cost transaction/savings accounts will not ensure the financial stability of the unbanked or under-banked communities. A financially sound community becomes a *hoped-for-by-product* while increasing regulatory and financial demands on financial institutions. There is no easy path to financial stability. We must begin with financial education in our schools and local communities, especially the Gateway or Portal communities, rural areas, and high poverty neighborhoods.

Community Reinvestment Act (CRA) currently requires banks to provide outreach to low-moderate income individuals and geographies through community development. CRA allows banks to create products that meet the needs of their communities by understanding their communities, while maintaining safe and sound banking products and practices. In the CRA Q&A, community development requirements are defined as:

> "Community development includes activities that promote economic development by financing small businesses or farms. Community development also includes community or tribal based child care, educational, health, or social services targeted to low-or moderate-income persons, affordable housing for low-or moderate-income individuals, and activities that revitalize or stabilize low-or moderate-income areas, designated disaster areas, or underserved or distressed nonmetropolitan middle-income geographies."

Additional regulation requiring specific accounts related to low-moderate income individuals are redundant with existing CRA requirements. The redundancy will increase compliance costs for financial institutions, and place an undue burden on financial institutions that are currently working to meet the needs of the communities served, such as financing small businesses and small farms.

The Bank Secrecy Act (BSA) implements the Customer Information Program (CIP), which requires financial institutions to positively identify customers. Will low-moderate income individuals be able to meet or understand the basic CIP requirements? Through partnerships with community based organizations and financial institutions the financial education programs can be developed and offered teaching the importance of obtaining and maintaining proper identification.

While keeping all of the above points in mind, we have responded to the aspects of the templates suggested by the FDIC.

What are the expected benefits to consumers using safe, low-cost transactions and basic savings accounts?

- Consumers with access to banking products will benefit in a multitude of ways, including:
  - Savings from not utilizing check cashing facilities. The average fees for cashing checks are approximately $800- $1200 annually;
  - Establishing a banking history may allow a consumer to receive multiple benefits such as better housing opportunities, banking products, credit products, better health insurance benefits, etc.
  - Automatic payments decrease fees due to late fees or penalties on payments as well as the costs of check printing fees to consumers;
  - Savings programs allow consumers to save for needs and wants, such as large ticket items, i.e. homes, cars, etc. These purchases "anchor" the consumer to their communities, which in turn stabilize communities;

    - Safety of assets by not carrying cash or storing cash at home.
    - The various consumer protection regulations provide additional peace of mind for consumers when utilizing Debit/ATM cards.

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?
With the convenience and wide acceptance of ATM/Debit cards, 5-10 checks per month, with a small fee for checks in excess of the amount should be sufficient.

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 the following items taken into consideration, the appropriate range for a low fee account is $5.00 - $7.00 per month..

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?

- These would, of course, vary based on region and state and must be compared with other local financial institutions. Services would be available to consumers with an active transaction account.
    - Money Orders/Cashiers Checks - $5.00-$8.00 (what if an institution does not offer Money Orders?)
    - Check cashing – free to customers and non-customers cashing checks drawn on the FI;
    - Bill payment – basic bill service free of monthly fees;
    - Domestic & International wires – $30 - $35
    - Online banking – free of charge
    - Telephone banking (check balances, make internal phone transfers) free of charge;
    - International ACH – maximum of 2 per month with maximum dollar amounts

What are some of the ways of minimizing the costs of offering transactions and savings accounts with attractive features for LMI underserved consumers?

1. Require Direct Deposit;
2. Offer local financial education classes;
3. Partner with other businesses or community based organizations to offer multiple services with accounts;
4. Offering electronic accounts only – required ATM/Debit card usage, with limited in-branch transactions;
5. Establish automatic transfers to build and establish savings accounts;
6. Establish accounts that offer a line of credit or other small line to cover overdrafts and build credit history;
7. Offer non-interest bearing accounts;