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The Cities for Financial Empowerment Coalition's Comments to the Federal Deposit Insurance Corporation's Proposed Templates for Safe, Low-Cost Transactional and Basic Savings Accounts

June 4, 2010

The Cities for Financial Empowerment (CFE) Coalition is a network of cities committed to advancing innovative financial empowerment initiatives locally and nationally. Expanding the vision of how municipal government can serve its citizens and create pathways for financial stability, CFE leverages power and politics in the service of at-risk communities, and provides a platform for cities to work and learn collectively, forging partnerships with public, private, and non-profit sectors. CFE members include co-chairs New York and San Francisco, and member cities Chicago, Los Angeles, Miami, Newark, Providence, San Antonio, Savannah, and Seattle.

CFE cities across the country are designing and implementing innovative policy solutions to help people who are disenfranchised from the mainstream banking system gain access to affordable financial services through both specialized account-based bank access programs and "Bank On" campaigns. By focusing on connecting low- and moderate-income families to banking, opportunities for asset building and financial education, as well as maximizing consumer protections, these municipal efforts are reaching millions.

Recommendations

The CFE coalition applauds the FDIC's leadership in promoting safe, affordable financial products and services. By establishing a baseline for safe and affordable accounts, the FDIC will be equipping the thousands of efforts at a national, state and local level to link financially underserved residents to the financial mainstream.

Based on CFE's diverse programmatic experience working across the public and private sectors to implement municipal programs that seek to increase access to mainstream financial institutions, we offer the following recommendations to further strengthen the proposed template (*See Appendix A for the revised template reflecting CFE's recommendations*).

Account Fees

- **Overdraft Protection.** Safe, affordable accounts must not include fee-based overdraft protection for ATM withdrawals, debit transactions, or ACH transactions. With the exception of paper checks, transactions that cannot be covered by available funds

should simply be declined. A reasonable nonsufficient funds fee of \$15 or less may be assessed for paper checks, whether they are covered or returned. Further, links to savings accounts or lines of credit to cover overdrafts should be offered with no fee (although interest charges on a credit line are permissible) and with clear disclosure and consumer consent.

- **Monthly maintenance fees.** The FDIC should specify what it means by “low fee” in order to be as clear as possible in these guidelines. CFE proposes limiting monthly maintenance fees for transactional accounts to no more than \$5. In addition, monthly fees should be waived if direct deposit is established.
- **Check clearing.** Many consumers who turn to check cashers do so for quick access to funds. The template should specify that accounts provide timely clearing of checks, within 48 hours. Consumers should be able to reasonably expect to have access to their funds within two days of making a deposit.

Access to Accounts

- **Remove reference to LMI.** While it is appropriate to focus on designing safe, affordable products with the financial realities of low to moderate income households in mind, the inclusion of a specific reference to this population may unnecessarily imply a limitation on the usefulness of the account and could potentially inhibit implementation. Efforts to promote these accounts will undoubtedly focus upon lower-income populations and communities but income levels should not be formally established for the account. Further, these accounts are great basic starter accounts for young adults from families across the income spectrum.
- **Expand upon identification guidelines to ensure broad access to accounts.** To clear up any confusion about the types of identification permitted and ensure eligible consumers are not denied access to these accounts, the FDIC should provide written guidance on the Patriot Act/Know Your Customer requirements. The written guidance should also cover acceptable forms of alternative identification, including the use of ITINs and whether such tax identification numbers should be required to open non-interest bearing accounts.
- **Expand upon eligibility guidelines for formerly banked customers to ensure broad access to accounts.** The FDIC should specify standards for opening accounts for consumers with ChexSystems records. CFE recommends that financial institutions be expected to open accounts if an incident on ChexSystems in question occurred more than six months prior to the account application. Applicable fraud and restitution policies could still apply.
- **Promote accounts to check-cashing customers.** Financial institutions should be instructed to establish specific strategies to market depository accounts to their unbanked customers that use their check-cashing services.

Account Features and Additional Services

- ***Unlimited withdrawals per month and free electronic banking.*** CFE strongly supports unlimited electronic withdrawals and free electronic banking as important account features. Consumers also should be permitted to write unlimited checks at no cost, aside from reasonable printing charges for additional paper checks.
- ***Money orders.*** Despite accessing financial services, many low-income people find themselves unable to engage in certain basic transactions through their accounts (such as paying rent by check). CFE proposes that financial institutions be instructed to offer accountholders one free money order per month. Additional money orders for customers and money orders for non-customers should be reasonably priced from \$0 - \$2.50.
- ***Domestic wire transfer and international remittance fees.*** Fringe financial service providers are often relied upon by potential accountholders for money transfers. To better serve this population and provide additional opportunities to cross-selling the accounts, CFE supports requiring competitive rates for domestic wire transfers and international remittances, which should be specified in the template. The FDIC should also require that such fees are clearly disclosed, including exchange rates that may apply.

Other Features to Consider

- ***Alternative waiver of monthly maintenance fees.*** Monthly maintenance fees could be waived if a consumer purchases a specific number of money orders. CFE recommends a fee waiver when four money orders are purchased in a given month.
- ***Limited immediate check clearing.*** Clearing the first \$100 of each check immediately could attract those living paycheck to paycheck.

Recommendations for Template Implementation

Setting an unambiguous template for safe accounts is a critical step in promoting access to appropriate mainstream financial services to those currently un-served or under-served. Once the template is finalized, the FDIC should work with a range of federal and state regulators to provide powerful incentives for the final template to be widely available to consumer at all insured financial institutions. Some implementation strategies could include:

- ***Use local and national campaigns to encourage participation.*** The Access to Banking initiative created by the regulatory reform bill and/or the Bank on USA program proposed in President Obama's FY 2011 budget should expressly promote the template accounts as a minimum expectation for any funded initiative. CFE cities are uniquely positioned to help ensure that unbanked and underbanked residents are aware of this opportunity once it is ubiquitously available.

- ***Provide recognition to those offering accounts.*** Financial institutions that successfully offer, market and sell the account could be provided with a special FDIC rating or seal of approval.
- ***Use the CRA service test to monitor marketing.*** Through CRA exams or other mechanisms, bank regulators review marketing materials associated with starter accounts and require reports on the number of those accounts actually opened.
- ***Use federal payments to leverage account opening.*** Through the FLEC, the federal government could coordinate that federal programs with cash outlay use this count as the default account, rewarding institutions that offer these accounts with access to significant deposits of federal funds

Conclusion

The CFE coalition strongly supports the FDIC's efforts to clearly define standards for safe, affordable accounts. Encouraging financial institutions to offer safe accounts completely free of fee-based overdraft charges is an important step in connecting the unbanked to the financial mainstream.

By implementing multipronged approaches to financial empowerments, CFE cities have learned many important lessons about the financial behaviors of our citizens. The CFE coalition encourages the FDIC to set the strongest possible standards for safe, affordable accounts by adopting the proposed recommendations crafted based upon our real-world experience implementing empowerment initiatives across the country.

Respectfully,



Jonathan Mintz
Commissioner
NYC Department of Consumer Affairs
Co-Chair, CFE Coalition



José Cisneros
Treasurer
City and County of San Francisco
Co-Chair, CFE Coalition

Appendix A: CFE's Proposed Template Revisions

Figure 1
A Sample Template for
Safe, Low-Cost Transactional Account Features For LMI Consumers
Account Would Take the Form of a Low Fee Basic Checking Account
or Insured Account-Based Debit Card

Potential Features and Services to Consider	Fees/ Other Aspects
<p><u>Identification Requirements:</u> When opening an account, consideration could be given to apply latitude and flexibility (as permitted by law) when forming a reasonable belief about each customer's identify and when assessing the risk of opening a new account. <u>Financial Institutions should accept all forms of identification allowable under the Patriot Act/Know Your Customer guidelines</u></p> <p><u>Eligibility:</u> <u>Financial Institutions should open accounts for customers with a ChexSystems record when incident occurred more than six months prior. Fraud and restitution policies can still apply.</u></p>	
Basic Characteristics	
Opening balance deposit requirement	\$10 — \$25 <u>\$0 - \$50</u>
Monthly minimum balance requirement	\$1
Monthly maintenance fee/service charge	No/low fee <u>\$0 to \$5.00. No monthly fee with direct deposit.</u>
Total number of withdrawals per month <ul style="list-style-type: none"> • If check-writing is permitted, the ability to write at least _____ number of <u>unlimited</u> checks each statement cycle • Unlimited number of electronic withdrawals (e.g., debit card and ATM card used in the bank network) 	No fee. <u>Reasonable printing charge for replacement checks.</u>
Electronic (e.g. phone, online or mobile phone) banking, including (at a minimum) the ability to view account transactions and transfer funds between accounts.	No fee
Overdrafts are not permitted and NSF fees are not assessed by the institution <i>or</i> Checking account can be linked to a savings account or line of credit to cover overdrafts	Allow \$15 fee for NSF for paper checks only Low <u>No</u> fee
Account can receive deposits via direct deposit	No fee
Option to automatically transfer into a savings account a fixed percentage of each checking account deposit or a fixed dollar amount every month.	No fee
<u>Check clearing</u>	<u>Checks should be cleared within 48 hours</u>
Other Financial Services Offered To Customers And Noncustomers	
Money orders	Competitive market rate <u>One free money order per month for customers;</u>

	<u>additional and for non-customers priced at \$0 to \$2.50</u>
Check cashing	Competitive market rate, <u>Opportunities to open the starter account should be promoted to check cashing customers.</u>
Ability to pay bills online, at the branch, or at on- and off-site kiosks.	Competitive market rate <u>No fee</u>
Domestic wire transfers	Competitive market rate, <u>transparently disclosed</u>
International remittances	Competitive market rate, <u>transparently disclosed</u>

Figure 2
A Sample Template for
Safe, Low-Cost Basic Savings Account Features
For LMI Consumers

Potential Features and Services to Consider	Fees/ Other Aspects
<p><u>Identification Requirements:</u> When opening an account, consideration could be given to apply latitude and flexibility (as permitted by law) when forming a reasonable belief about each customer's identify and when assessing the risk of opening a new account. <u>Financial Institutions should accept all forms of identification allowable under the Patriot Act /Know Your Customer guidelines</u></p> <p><u>Eligibility:</u> <u>Financial Institutions should open accounts for customers with a ChexSystems record when incident occurred more than six months prior. Fraud and restitution policies can still apply.</u></p>	
Basic Characteristics	
Opening balance deposit requirement	No amount/as low as \$5
Monthly minimum balance requirement	No amount/as low as \$1
Monthly maintenance fee/service charge	None
Withdrawals	Standard notice of withdrawal provisions would apply. (See 12 C.F.R. § 204.2(d)(1); See also 12 C.F.R. § 329.1(b).)
Deposits (including the ability to make deposits through direct deposit or automatic transfer from a checking account at the institution)	No fees
Interest bearing	Yes, and paid at a competitive/market rate