Department of Consumer Affairs

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June 6, 2010

Chairman Sheila Bair
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: FDIC Safe Bank Account Template

Dear Chairman Bair:

As the Commissioner of New York City's Department of Consumer Affairs (DCA), the largest municipal consumer protection agency in the country, I write to commend the FDIC for proposing savings and checking template accounts. Now more than ever, clear and consistent criteria for basic and safe financial products and services are needed to help low and moderate income households achieve financial stability.

I also write to draw your attention to a few key points about the implementation of the FDIC template. These are based on New York City's experience leveraging our position to achieve safe and affordable transactional accounts for City residents. In particular, I offer a case study of our efforts, under the leadership of Mayor Michael R. Bloomberg, in bringing financial institutions to the table to design and voluntarily offer accounts that are both safe and affordable for customers and economically sustainable for financial institutions. In short, this worked, with financial institutions of all sizes agreeing to offer the City's population of 8.2 million people a safe, standard account.

Finally, I write as the founder and co-chair of the Cities for Financial Empowerment (CFE) Coalition to reiterate and reinforce the recommendations submitted by the CFE Coalition (*See Attachment A*). The FDIC's safe transactional and savings account templates, if properly designed and widely offered consistent with the attached recommendations, can promote economic empowerment for both consumers and financial institutions.

Background

DCA's Office of Financial Empowerment (OFE), which is the first municipal office dedicated to financial empowerment, educates, empowers, and protects those with low incomes so they can build assets and make the most of their financial resources. OFE spearheads an array of efforts designed with potential for scale: protecting New Yorkers with low incomes from unfair and predatory practices, conducting large-scale public education campaigns, implementing innovative asset-building strategies, and coordinating a dynamic Citywide network of quality financial service providers.

Our work is driven by research. In June 2008, OFE released an intensive supply and demand analysis of consumers' banking patterns in two target low-income neighborhoods (*See Attachment C for Executive Summary)*. We found that the fundamental mismatch between the products being offered and the populations' discernable needs is what primarily deters people from accessing financial institutions. For example, 61 percent of residents with checking accounts reported that their landlord would not accept checks, but bank money orders cost four times those of a typical cash casher.

Subsequently, we commissioned a Citywide analysis of existing data sets and found more than 825,000 people in more than 400,000 New York households lack bank accounts. Unbanked households are highly concentrated in the lowest-income communities, primarily in the Bronx, Brooklyn, and Manhattan. Eighty percent of the unbanked residents live in only 20 of New York's 53 neighborhoods. This data set has been essential to our targeting banking initiative resources to achieve the greatest potential impact.

To address the mismatch between products available and consumer needs, OFE designed an account that is both responsive to the needs of those with low incomes and transparent and safe. Then we really got to work.

Case Study: The NYC SafeStart Account

New York City's experience identifying consumer needs, leveraging the opportunities provided by government programs, and adding the power of the City's voice to build partnerships with financial institutions provides a case study in the implementation of safe banking standards.

Among the problems consumers identified with banking products, OFE's research made clear that unpredictable fees were the single key factor as to why people stayed away from mainstream financial institutions. In particular, the communities we surveyed cited overdraft fees as a significant source of fee unpredictability.

The Plan. Under the leadership of Mayor Bloomberg, DCA undertook to address the lack of safe, affordable accounts. We knew that the participation of financial institutions had to be voluntary and the account economically sustainable in order for DCA's approach to be successful.

> Step One. The first step was to identify the right opportunity with the right population of potential customers. In 2007, we identified the City's Opportunity NYC conditional cash transfer program. The program was about to enroll a large population of New Yorkers with low incomes, many of whom were disconnected from mainstream banking. And the program would require a transactional account where the City's direct deposits could be made.
>
> Step Two. Next, we designed a basic and safe transactional account with easy ATM access to funds in the account. The account would have no minimum balance requirements, no monthly maintenance fees, no overdraft fees and the ability to add funds by direct deposit.
>
> Step Three. We presented the opportunity to dozens of financial institutions. They were offered the option to participate or not. To participate, a financial institution had to agree to offer the account, including all of the safe product design features, and it had to use the City's branding. In exchange, participating banks and credit unions had access to an attractive population of customers who would receive bimonthly direct deposits from the program for two years. They also gained City branding and endorsement, as well as the City's publicity surrounding the launch and marketing of the account. Moreover, we aggressively promoted the account to Opportunity NYC participants, and we facilitated and encouraged account opening at the key moment: the moment of participant enrollment in the Opportunity NYC program.

Results. Ten financial institutions offered the Opportunity NYC account. Because staff from the financial institutions opened accounts onsite at several large-scale orientation sessions, nearly 1,600 accounts were opened within two months, and, today, more than 1,900 program participants hold those accounts. As of December 2009, only seven percent of Opportunity NYC program participants lacked a bank account.

Building on Success. Building on the success of the Opportunity NYC account, DCA began to negotiate a safe, starter account open to *all* New Yorkers. Launched in February 2010, the NYC SafeStart Account (*See Attachment B for information on NYC SafeStart)* is an ATM-based starter account designed to help New Yorkers protect their money by avoiding costly fees, like overdraft fees and monthly fees. Through this account, City residents could overcome some negative banking records in "Chexsystems" by agreeing to attend a free financial counseling session at an OFE Financial Empowerment Center.

SafeStart led the way to partnerships with additional financial institutions and yielded the development of more transactional accounts. In the summer of 2010, OFE is launching the NYC First Account, a safe checking account, available to young adults participating in the City's Summer Youth Employment Program. The account features a debit card with a Visa or MasterCard logo and has no monthly fees or required minimum balances for at least two years.

Recommendations

DCA's recommendations are encompassed in the recommendations of the Cities for Financial Empowerment (CFE) Coalition, which I have included as Attachment A to this submission. New York City founded and co-chairs this Coalition, a group of ten city governments working to improve financial services for households with low incomes. CFE cities are pioneering the emerging field of municipal financial empowerment across the country. The Coalition facilitates the ability of CFE cities to share lessons learned from our individual and joint efforts and to advocate, jointly for national policy reforms.

This broad and varied Coalition experience informed the attached CFE comments. They reflect our shared vision for a suite of model financial products aimed at sustainably serving low- and moderate-income consumers in a manner that encourages asset building and financial stability. Basic checking and savings accounts are the building blocks to more sophisticated saving, investment and asset-building credit. We encourage the FDIC to take strong measures to ensure that these templates can serve as those building blocks for millions of unbanked Americans.

Sincerely,

Jonathan Mintz
Commissioner
New York City Department of Consumer Affairs

Attachment A
The Cities for Financial Empowerment Coalition's Comments to the FDIC's Proposed Safe, Low-Cost Accounts

CFE Cities for Financial Empowerment

Co-chairs

New York City

San Francisco

Member Cities

Chicago

Los Angeles

Miami

Newark

Providence

San Antonio

Savannah

Seattle

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)*.

<u>Account Fees</u>

- ***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 realties 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**
Identification Requirements: 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. **Financial Institutions should accept all forms of identification allowable under the Patriot Act/Know Your Customer guidelines** **Eligibility:** **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.**	
Basic Characteristics	
Opening balance deposit requirement	~~$10 - $25~~ **$0 - $50**
Monthly minimum balance requirement	$1
Monthly maintenance fee/service charge	~~No/low fee~~ **$0 to $5.00. No monthly fee with direct deposit.**
Total number of withdrawals per month • If check-writing is permitted, the ability to write ~~at least___number of~~ **unlimited** checks each statement cycle • Unlimited number of electronic withdrawals (e.g., debit card and ATM card used in the bank network)	No fee**. Reasonable printing charge for replacement checks.**
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 *or* 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~~**No** 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
Check clearing	**Checks should be cleared within 48 hours**
Other Financial Services Offered To Customers And Noncustomers	
Money orders	~~Competitive market rate~~ **One free money order per month for customers;**

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

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**
Identification Requirements: 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. **Financial Institutions should accept all forms of identification allowable under the Patriot Act /Know Your Customer guidelines** **Eligibility:** **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.**	
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

Attachment B
New York's Own Safe Account Template: The NYC SafeStart Account

NYC SafeStart Account

Protect Your Money:

Get a NYC SafeStart Account

NYC SafeStart Account special features avoid costly fees and help protect your money:

- No overdraft fees
- No monthly fees, provided minimum balances are met
- Minimum balance requirements of $25 or less
- ATM Card (No debit card)

For more information, **call 311** and ask about the NYC SafeStart Account or visit nyc.gov/ofe

NYC

Michael R. Bloomberg
Mayor

Department of Consumer Affairs
Office of Financial Empowerment

Jonathan Mintz
Commissioner

Center for Economic Opportunity

Veronica M. White
Executive Director

Participating Banks and Credit Unions in NYC:

BETHEX FEDERAL CREDIT UNION

Financial Empowerment Center locations:

Need financial counseling? Get FREE help at the City's Financial Empowerment Centers, where you can learn more about opening a NYC SafeStart Account.

Financial Empowerment Center in the Bronx
3125 Third Avenue
Bronx, NY 10451

Financial Empowerment Center in Brooklyn
1406 Fulton Street
Brooklyn, NY 11216

Financial Empowerment Center in Manhattan
76 Wadsworth Avenue
New York, NY 10033

Financial Empowerment Center in Queens
87-80 Merrick Boulevard, 2nd Floor
Jamaica, NY 11432

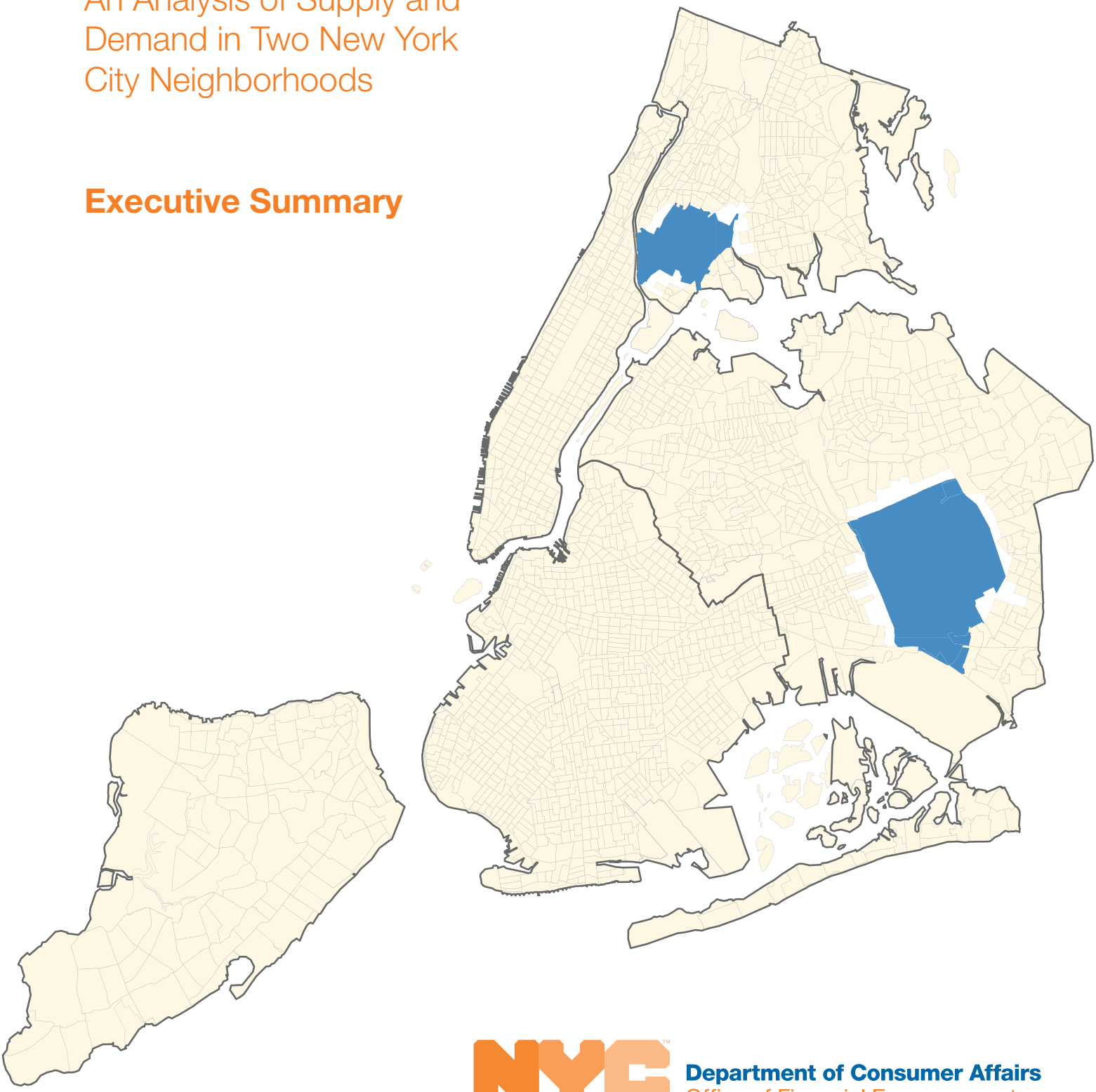
Call 311 to schedule a financial counseling appointment today!

Attachment C
New York City's Neighborhood Financial Services Study: Executive Summary

Neighborhood Financial Services Study

An Analysis of Supply and Demand in Two New York City Neighborhoods

Executive Summary



Department of Consumer Affairs
Office of Financial Empowerment

Neighborhood Financial Services Study:

An Analysis of Supply and Demand in Two New York City Neighborhoods

Executive Summary

New York City Department of Consumer Affairs
Office of Financial Empowerment

Michael R. Bloomberg
Mayor

Jonathan Mintz
Commissioner

June 2008

Printed on 30% post consumer recycled paper

Executive Summary

For most New Yorkers, financial services today are more accessible and easier to use than ever before. Yet, for many low-income households, banking has become more costly, unpredictable, and out-of-step with their actual needs. As a result, hundreds of thousands of New York families living on low incomes choose to remain "unbanked" and rely upon "fringe" financial service providers, such as check cashers and pawnshops, for basic financial transactions and credit services. Researchers have posited a variety of reasons why people in low-income communities are more likely to use high-cost fringe transactional and credit products: insufficient financial education and awareness, lack of physical bank availability in their communities, inaccessibility of mainstream loan products, and greater comfort and convenience offered by check cashers and other fringe providers. Instead, the Neighborhood Financial Services (NFS) Study identifies a mismatch between the needs of residents in two low-income New York City neighborhoods and the financial products and services offered, suggesting market-based reasons why residents disproportionately use fringe financial services.

The NFS Study explores the availability and usage of financial services and products in two neighborhoods: Jamaica, Queens and Melrose, Bronx. The New York City Department of Consumer Affairs' Office of Financial Empowerment (OFE) conducted the study under the leadership of the Center for Economic Opportunity as part of Mayor Bloomberg's broader anti-poverty efforts, and with support from the William J. Clinton Foundation. The purpose of the NFS Study is to better understand banking dynamics in low-income neighborhoods to identify public and private opportunities for long-term, high-impact financial empowerment initiatives.

i. Methodology

The New York City Department of Consumer Affairs' OFE conducted the NFS Study to analyze the relationship between consumer financial needs and current product offerings in neighborhoods with low incomes. A survey was developed in English and Spanish, drawing from relevant regional and national surveys, with the help of an experienced consultant. To engage community expertise and voice in this research, OFE partnered with two community-based organizations, Phipps Community Development Corporation in Melrose and Neighborhood Housing Services of Jamaica, to conduct the surveys in person with 640 randomly selected residents. In addition, OFE convened four focus groups to delve deeper into key findings. To better understand the supply of financial services in the two neighborhoods, researchers from the William J. Clinton Foundation analyzed current products and services offered by both mainstream and fringe financial service providers, and analysts from the Neighborhood Economic Development and Advocacy Project (NEDAP) mapped relevant community and city data.

ii. Findings

Finding: There is a fundamental mismatch between current financial product and service offerings and the needs of low-income households. This mismatch appears to play a more prominent role in these communities than bank branch proximity in determining why residents remain "unbanked" and why fringe financial services are widely used.

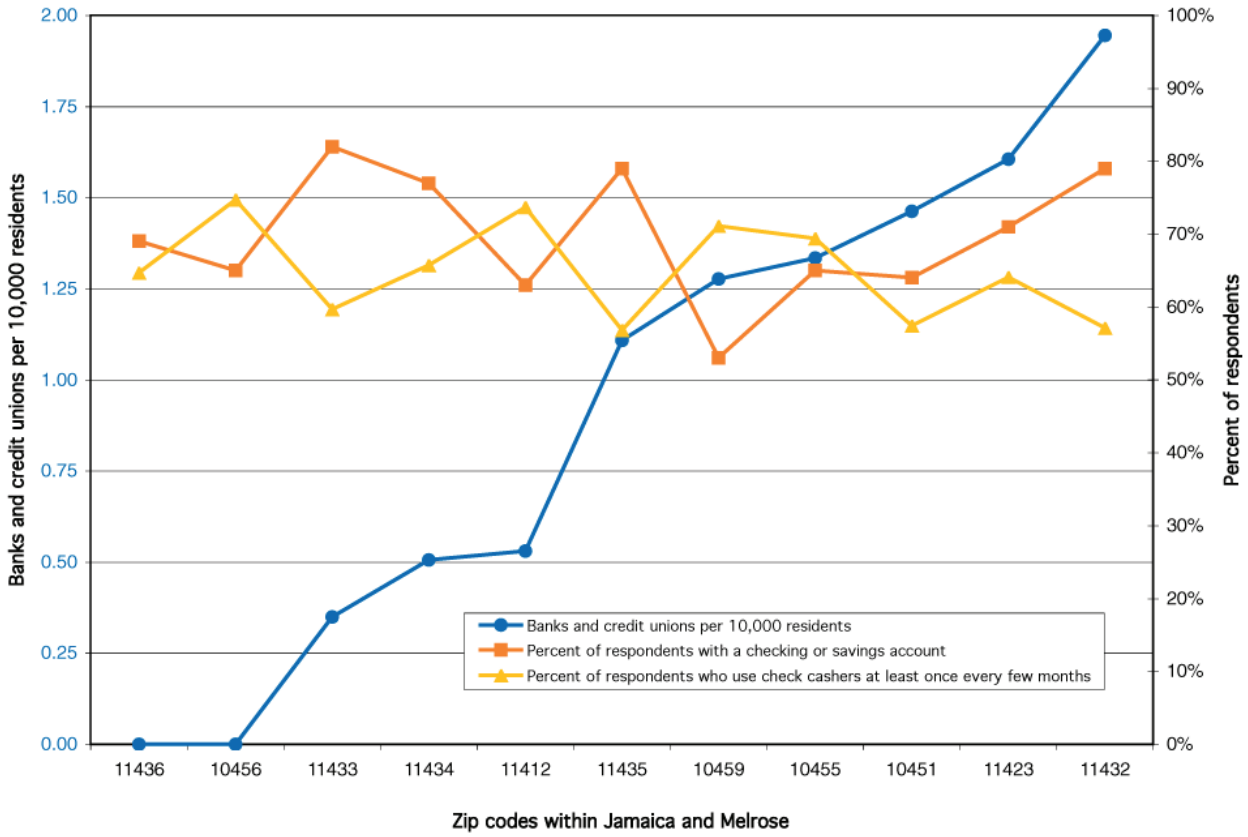
Overall, 31% of Jamaica and Melrose survey participants—translating to approximately 110,000 residents—are "unbanked" (i.e., lacking a checking and savings account). Although residents with the lowest incomes are disproportionately represented among the unbanked, a surprising number of middle-income respondents are also without bank accounts—17% of Melrose and 13% of Jamaica households with annual incomes over $40,000 lack a banking relationship (representing approximately 8,700 households).

Fringe financial services, such as check cashers and pawnshops, are widely used in both communities. However, use of fringe financial services is not limited to the unbanked. In fact, 75% of residents use check cashers at least once every few months. These services come at great cost—*Melrose and Jamaica consumers spend an estimated $19 million per year in check cashing fees alone*.[1]

Why would people rely on expensive fringe services, especially if they are already connected to mainstream financial institutions? This study explores two hypotheses: the lack of physical availability of mainstream financial services and the lack of availability of products that meet the needs of consumers with low incomes.

Although Jamaica and Melrose have less bank branches per capita than the city overall, the NFS Study finds that, within these two communities, *the concentration of bank branches is virtually unrelated to the percentage of residents with bank accounts*. Figure 1 shows that as the density of bank branches increases, the proportion of residents with bank accounts changes very little. Similarly, there is no relationship between the percentage of individuals using check cashers and the concentration of banks and credit unions in their zip code.

Figure 1. Density of bank branches with percent "banked" and percent using check cashers



Rather than physical availability of bank branches, the NFS Study findings suggest that the fundamental mismatch between current financial products offered and consumer transactional needs—getting cash, paying bills, and buying goods—appears to be the major determinate in whether and how individuals with low incomes use mainstream financial institutions. Table 1 illustrates the principal mismatches found by the NFS Study.

Table 1. Comparison of checking account supply and consumer demand

Checking Account Offerings	Consumer Need
Most checking accounts are free only if the consumer has direct deposit.	61% of low-income checking account holders do not have direct deposit.
Checking accounts facilitate bill payment, but only through checks or online payments.	53% of checking account holders cannot pay their rent with a check or online; rather, they must pay in cash.
Overdraft protection plans are common, charging an average of $30 for spending over the account balance.	21% of account holders overdraw their checking account every few months.

The NFS Study finds that unbanked residents recognize these market mismatches and respond by using fringe financial services. Nearly one in four unbanked survey respondents cited excessive fees as the reason they avoid mainstream banking. Fees were the most common response given by NFS Study respondents as to why they avoid mainstream banking. This is especially true among the estimated 54,000 unbanked residents who might be perceived as the most attractive customers to financial institutions because they hold full-time jobs and have incomes over $20,000. Among these residents, 50% cited fees as a deterrent to mainstream banking.

Focus group participants further indicated that unpredictability and complexity of fees are as important to the unbanked as actual cost. Analysis of the checking accounts offered in both communities reveals multiple fees levied on low-balance accounts, including minimum-balance monthly maintenance charges, transaction limits, and insufficient funds fees. Since these fees are the result of consumer actions, rather than fees charged up-front (like check cashing fees), they are perceived as "unpredictable" by consumers, many of whom might not closely monitor their accounts or may not fully understand the terms and conditions associated with checking accounts.

Finding: Households in Jamaica and Melrose have more savings than might be expected, although analysis of savings products offered in these two communities reveals a mismatch between consumer needs and current product offerings.

The NFS Study finds that many low-income households in these two communities save money. Sixty-three percent of community members have formal or informal savings (informal savings refers to mutual savings groups, at-home savings, or saving in a friend or family member's bank account). Respondents with savings reported an average savings of $1,200.[2] Further, 31% of the unbanked reported having some type of savings, averaging $25, whether informal or formal (for the unbanked, formal savings typically refers to savings in a retirement account). In addition, 16% of NFS Study respondents make automated regular contributions to savings, and have an average primary savings balance of $3,000.[3] Contrary to conventional asset-building wisdom, savers in both neighborhoods are less likely to be motivated to save for concrete goals, such as buying a car or house, and more likely to save for emergencies or "the future" in general.

Receiving a refund from the Earned Income Tax Credit (EITC) and participating in financial education are both linked to residents' savings behavior. EITC-filers are twice as likely as non-filers to have savings, even after controlling for income, education, age, race, and other demographic variables. Similarly, holding all else constant, people who have taken a financial education class, seminar, or workshop are twice as likely to have savings compared to those who have not.

This study also finds that few residents accumulate savings without also accumulating debt. Only 21% of individuals with savings hold no debt compared to 36% of individuals who hold no savings and have no debt. Moreover, individuals with debt are more likely to hold savings (68%) than individuals without debt (48%).

Focus group members shared that product features, such as automation and restricted access, help them save. However, analysis of savings products offered at banks in these communities reveals a mismatch between household needs and available products. Supply-side analysis indicates that most savings accounts available to low-balance savers in these neighborhoods have fees greater than their interest. Two-thirds of savings accounts available in these communities earn less than 1% in interest, and the majority have monthly maintenance fees averaging $3. The savings accounts available to residents in these neighborhoods may actually erode savings rather than help accumulate savings.

Finding: Even the lowest-income segments of these communities have access to mainstream credit; however, access to mainstream credit does not replace use of fringe credit sources, despite being costly and a strong predictor of financial instability.

Although historically the chief concern about credit in low-income communities was its lack of availability, credit is now widely used by consumers with low incomes. According to the NFS Study findings, 73% of residents in Melrose and Jamaica hold some form of debt. Most residents with debt accessed credit from a combination of mainstream sources (such as banks, credit unions, and credit card companies) and fringe sources (such as tax preparers who offer refund anticipation loans, rent-to-own stores, pawnshops, and Internet or informal payday lenders). More than one in three respondents have credit card debt; even among unbanked respondents, 20% hold credit cards. The average credit card debt is $2,500, or roughly 10% of card holders' average annual income of $26,000.

Fringe credit is widely available in Jamaica and Melrose, and accessed by residents for short-term, emergency needs. In fact, despite storefront payday lending being illegal in New York State, 9% of respondents reported accessing a formal or informal loan with a term of less than one month. Respondents reported that loans were provided by a friend or family member, moneylender, Internet or telephone-based company, or local business. Nine percent is a notable figure when compared to short-term lending in locations where payday lending is available legally. For example, a study of low- to middle-income Detroit residents conducted by the Brookings Institution and the University of Michigan revealed that 6% of working residents had applied for a formal payday loan.[4]

Also of note, even those with access to mainstream credit use fringe credit products. For example, although 58% of Jamaica and Melrose residents have credit cards, one-quarter of credit card holders have resorted to credit card cash advances at least once every few months. Furthermore, nearly 50% of respondents who use rent-to-own stores and pawnshops and 66% of respondents who have gotten a refund anticipation loan have at least one credit card.

Fringe credit is not only more expensive than mainstream credit, it is a strong predictor of financial instability. For purposes of the NFS Study, financial instability is defined as respondents being unable to pay rent or utility bills in the past 12 months and being "short on cash a few days before being paid." Fully four in 10 fringe credit users could not pay their rent at least once in the last year. Even when controlling for income, employment, family composition, and other factors, those who carry fringe debt have nearly three times the odds of experiencing financial instability as those without it. This is a significant finding, given that 46% of study participants reported using fringe credit.

Finding: Financial education is strongly associated with positive financial behaviors, such as being linked to mainstream financial institutions, having savings, and avoiding use of fringe debt. There is no relationship found in the NFS Study, however, between financial education and indicators of overall financial stability.

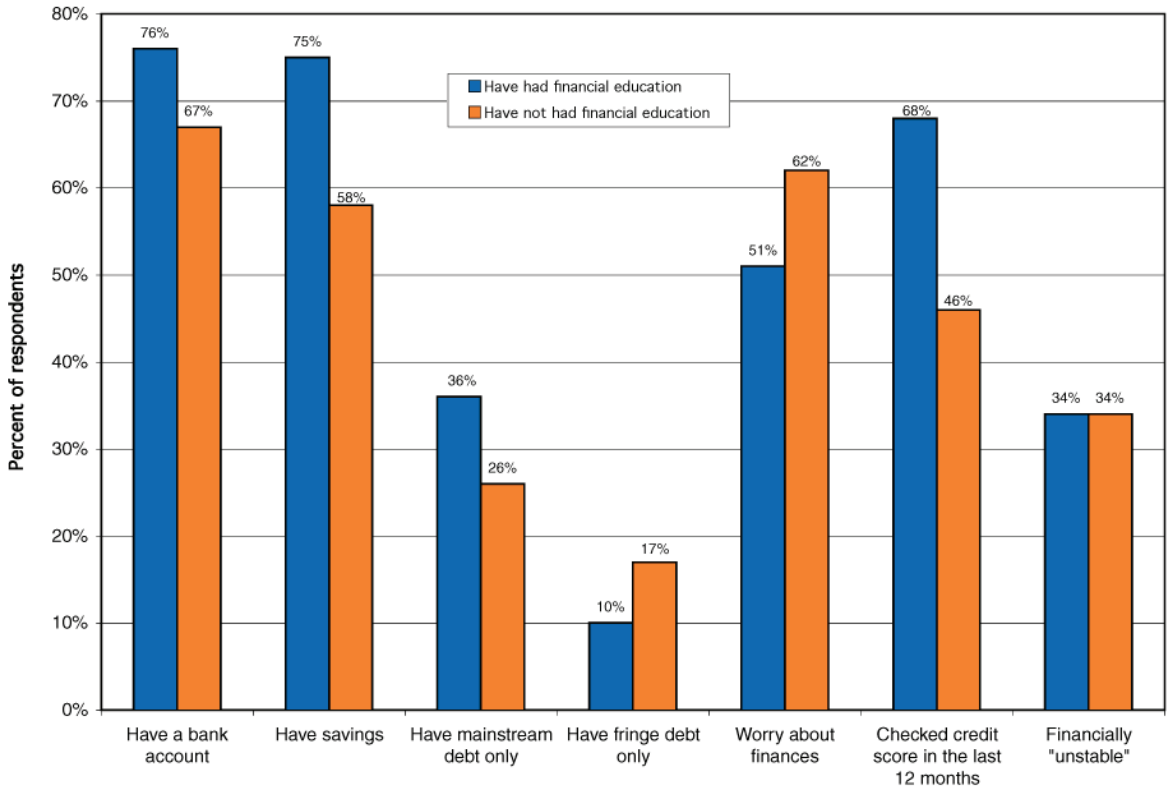
The NFS Study shows notably positive financial behaviors associated with attending a class, seminar, or workshop about money. As illustrated in Figure 2, respondents who have had financial education are more likely to have a bank account, hold savings, check their credit score, and exhibit less worry about their finances. For example, 75% of respondents who have taken financial education reported having savings, compared to 58% of respondents who have had no financial education. Multivariate analysis reveals a strong relationship between financial education and savings behavior even after controlling for income and education. After controlling for demographic factors, people who have attended a financial education class are nearly twice as likely to hold savings.

Nevertheless, the NFS Study finds that attending a financial education class is not associated with a difference in overall debt holding, nor is it relevant to rates of financial stability for residents in these two neighborhoods. These findings indicate either that financial education is most effective for households with consistent, stable incomes or that financial education offerings are more focused on basic banking and savings than on credit issues, which is likely to have a greater impact on financial stability.

Although positive behaviors are associated with financial education, more than one-half of survey respondents reported that they have never gotten financial advice from anyone (53%). The second most prevalent source of information reported is friends and family (40%). Only 5% of survey respondents chose school as "teaching them the most about money." While relatively few study participants have taken a class, seminar, or workshop about money (29%), most focus group participants shared the belief that financial education would be valuable. Said one Melrose focus group member:

> There needs to be a consultant in the neighborhood to help you and it needs to be free because we don't all make that kind of money. A consultant could explain to you "Look at all these bills I have" and you can ask them "How can I use this little check to pay all these bills?"

Figure 2. Financial behaviors of those who have and have not attended a financial education class, seminar, or workshop



iii. Gap-Closing Opportunities

The NFS Study findings identify multiple opportunities for mainstream financial institutions to engage markets they have missed while benefiting residents with low and moderate incomes. The continuum in Figure 3 posits such products as they would intersect with relevant populations. Transactional, savings, and credit products are coordinated to the product and service demands of households as they progress from financial instability to stability, and the legend identifies the size of those market segments in the two communities. At the left, the continuum begins with unbanked households with no formal credit history or savings. Moving to the right, products address families' demand for reducing the costs associated with everyday financial services, managing their debt, and building assets.

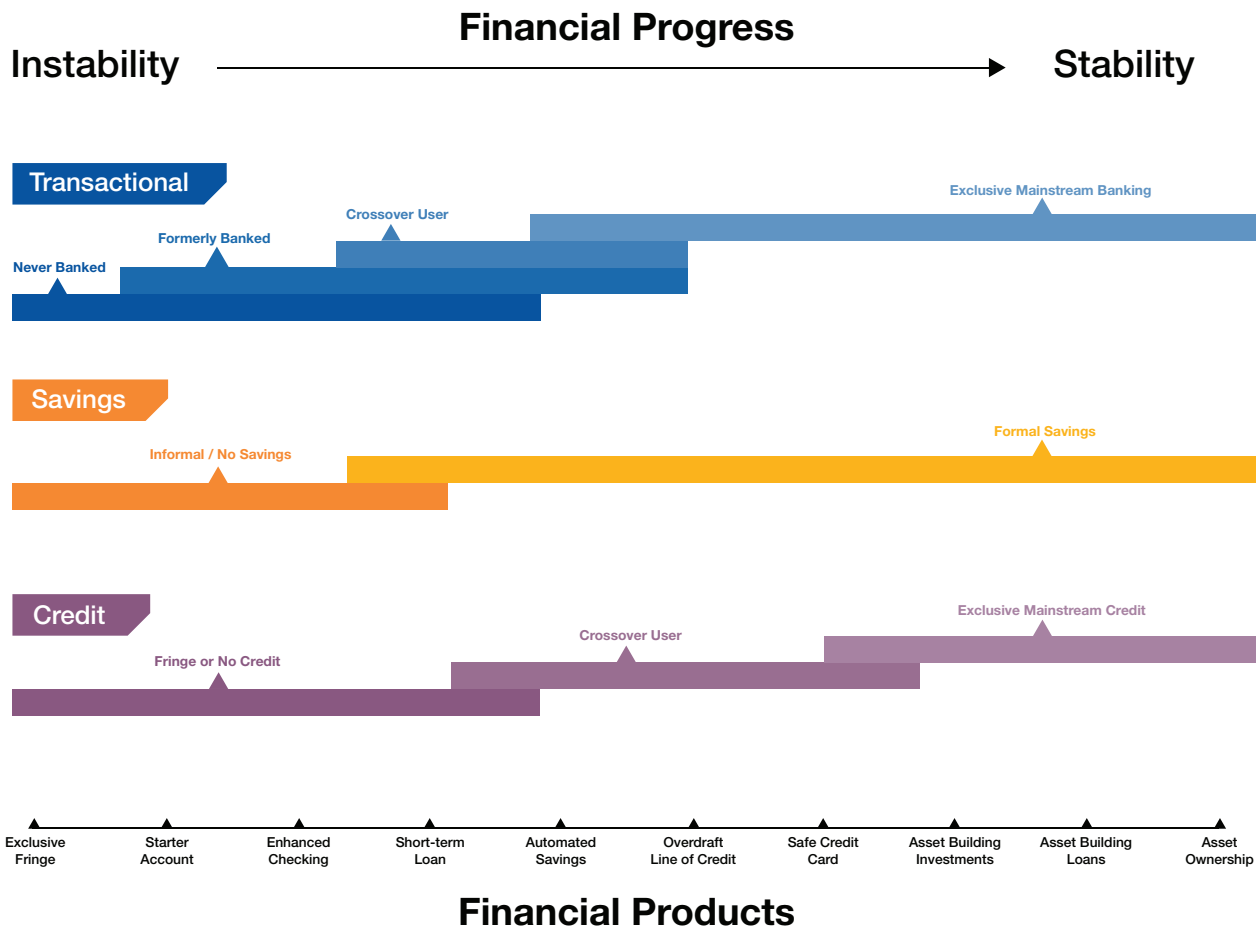
Basic Banking Services

The NFS Study findings demonstrate a fundamental mismatch between the checking products available to low-income households and their basic financial needs. Reconciling this mismatch would prove mutually beneficial to financial institutions and consumers alike. Consumers avoid banking relationships that might protect their earnings, facilitate savings, and build assets, while financial institutions are missing out on a market that is currently spending more than $225 million per year across New York City on check cashing fees alone.[5]

Bank usage patterns revealed by this study indicate that simply increasing branch presence in low-income communities, while still valuable, will not ensure mainstream financial institutions strategically capture this market. Innovative product development, combined with tailored marketing and improved customer service in low- to moderate-income branches, may better connect to customers who have stable incomes, genuine savings, and community longevity.

The continuum outlined in Figure 3 suggests a range of basic banking products that could connect to residents who have never held an account before or those who have closed accounts. In Jamaica and Melrose, approximately 90,000 individuals (25%) have never held a checking account before. An additional 47,000 (13%) lack a checking account currently but have previously held one. A no-fee, limited functionality starter account could allow consumers less expensive access to cash without exposing them to costly overdraft fees.

Figure 3. Continuum of financial products



Target Population	Definition	% of NFS Sample / Population Projection for Jamaica and Melrose
Never Banked	Never had a checking account	25% / 90,000 residents
Formerly Banked	Currently do not hold a checking account but once did	13% / 47,000 residents
Crossover User	Current bank account holders who use fringe providers to remit money or purchase money orders	51% / 184,000 residents
Exclusive Mainstream Banking	Exclusive mainstream banking use	24% / 87,000 residents
Informal/No Savings	Exclusively informal savings or no savings	47% / 166,000 residents
Formal Savers	Formal savings such as a bank account with a balance or retirement account	53% / 195,000 residents
Fringe or No Credit	Exclusive fringe credit or no reported debt	42% / 152,000 residents
Crossover User	Fringe and mainstream credit use	30% / 108,000 residents
Exclusive Mainstream Credit	Exclusive mainstream credit use	28% / 101,000 residents

Beyond starter accounts, banks could explore enhanced checking accounts with features tailored to meet the unique demand of consumers with low incomes. An enhanced checking product could be marketed to two major sectors of low-income communities: the most "bankable" who remain unbanked (54,000 unbanked residents—or 15%—in Jamaica and Melrose with full-time jobs and incomes over $20,000); and the "crossover" population (184,000 residents—or 51%—who currently have checking or savings accounts but rely on check cashers for some or most of their financial transactions). This market has steady income, although 61% of account holders are paid by check or cash. With 53% unable to use personal checks for bill payments, an enhanced checking product with competitively priced money orders, free checking linked to qualifications other than direct deposit, or overdraft lines of credit rather than "bounce protection" could draw many new customers into banking and ensure currently underbanked consumers take full advantage of banking relationships, according to NFS Study findings.

Savings

Households in the NFS Study demonstrate considerable propensity to save, although the products available to them make accumulating savings challenging. Few high-yield, restricted accounts with automated contributions are available to people with low initial contributions. In fact, the NFS Study's supply-side analysis indicates that most savings accounts available to low-balance savers in these neighborhoods have fees greater than their potential interest, meaning these accounts may actually erode savings rather than help accumulate savings.

Mainstream financial institutions share with consumers an interest to maximize long-term deposits. Innovative products offered through mainstream financial institutions are already encouraging informal or infrequent savers to transition to formal products by promoting "easy savings" programs. Opportunities in which leftover change from an account holder's purchases is deposited into a savings account or a "sweeper account" to facilitate funds being moved quickly and easily between checking and savings accounts could help facilitate savings for small account holders. Existing programs could be expanded by linking them to higher-yield products, such as low minimum balance certificates of deposit or money market accounts. Additionally, matched savings experiments and targeted outreach to encourage the purchase of treasury bonds or other low-risk investments could facilitate "growing" money through savings while protecting it from everyday use.

Credit

The NFS Study reveals a population of consumers who pay significant amounts of money for high-cost credit products, even at the expense of their financial well-being. An estimated 9% of Jamaica and Melrose residents (totaling 33,000) reported getting short-term, payday-type loans, while 25%, or a total of 90,000 residents, access credit through pawnshops or rent-to-own stores at least a few times per year.

Mainstream financial institutions could capture more of this consumer market by providing safe and sustainable credit alternatives. Credit repair or builder loans could help consumers consolidate high-cost debt into a much lower-cost, regular payment vehicle or help consumers who rely exclusively on fringe credit establish a credit record. Short-term, small-dollar loans could help replace informal or illegal payday-type lending or reliance on credit card cash advances. An affordable credit card, with credit limits linked to a borrower's ability to pay and reasonable interest rates that do not change based on penalties, could help low- and moderate-income families weather income and expense fluctuations without jeopardizing their financial futures.

In reaching this underserved market with credit products and services, the presence of strong consumer protections can have a tremendous impact not only in securing the safety of those with low incomes but on the safety of the industry. As evidenced by the crisis in the sub-prime mortgage industry, a lack of clear and responsible lending guidelines can both undermine a borrower's financial stability and the broader economy simultaneously. Reinforcing clear underwriting guidelines that are fundamentally linked to a borrower's capacity to repay the debt obligation is critical to both family stability and economic well-being. Moreover, there is a demonstrated need for greater clarity in the terms and conditions of credit products, which could be alleviated by stronger and clearer disclosures in the primary language of the borrower.

Financial Education

The complexity of today's financial products, especially credit products, requires a high degree of financial sophistication and knowledge. This study finds strong associations between financial education and positive financial behaviors, such as having a bank account, building formal savings, and accessing mainstream credit. Yet, as the research shows, less than one in three individuals has actually attended financial education classes or received one-on-one counseling. Efforts to maximize the availability and quality of financial education classes and counseling can help New Yorkers with low incomes make informed choices to move them toward positive financial behaviors.

Additional Research

This in-depth examination of two neighborhoods has illuminated a need for more data to better understand basic banking, savings, credit, and financial education behaviors and needs throughout New York City. Citywide research would help further clarify and quantify missed opportunities for financial institutions, policymakers, and financial education providers. The Department of Consumer Affairs' OFE expects to conduct a citywide telephone survey in summer 2008 to gain reliable data on the number of people lacking bank accounts, overall savings accumulated in low-income neighborhoods, and the levels of—and cost of—debt held by low- and moderate-income households. New York City will also work with other municipalities in this research effort, beginning with the Cities for Financial Empowerment (CFE), a coalition of municipal governments dedicated to advancing innovative financial empowerment initiatives, to compare and aggregate findings across the United States.

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[1]Total check cashing fees are estimated using the percent of respondents reporting check cashing usage by income for each neighborhood, and applied to the household population for that income group from the 2000 Census, adjusting for the proportion of the population that receives public assistance, which is distributed via a stored value card. We assume that those who visit check cashers weekly incur fees of 1.7% (New York State maximum as of March 1, 2007) on 100% of their gross income; those who visit monthly incur fees on 50% of their income. We do not include any costs for those that visit check cashers once every few months.

[2]Average savings reported is 5% trimmed means. Trimmed means are used throughout the NFS Study to eliminate outliers.

[3]The 16% of respondents who make automated contributions to savings also have higher incomes. On average, the household income for a respondent making automatic contributions is $37,000, compared to $19,000 for those who do not.

[4]Barr, M. (2007). Financial services for low- and moderate-income households. National Poverty Center Conference on Access, Assets, and Poverty.

[5]OFE analysis of data provided by the New York State Banking Department, February 7, 2008. Summary statistics can be found in Neiman, R. (2007). Report and recommendation to the governor pursuant to banking department study regarding geographic and fee restrictions imposed on locations used primarily for the cashing of checks, New York State Banking Department.

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