



TO: Federal Deposit Insurance Corporation

FROM: Massachusetts Community & Banking Council

DATE: June 6, 2010

RE: Comments on Templates for Transactional and Basic Savings Accounts

The Massachusetts Community & Banking Council is pleased to submit the following comments on the draft templates for transactional and basic savings accounts issued by the Federal Deposit Insurance Corporation (FDIC) on May 7, 2010.

Massachusetts Community & Banking Council

The Massachusetts Community & Banking Council (MCBC) was established in 1990 to bring together community organizations and financial institutions to promote positive change in the availability of credit and financial services across Massachusetts. MCBC seeks to achieve this goal by encouraging community investment in low- and moderate-income and minority neighborhoods, promoting fair and equitable access to financial products and services and providing research, assistance and direction in understanding and addressing the credit and financial needs of low- and moderate-income individuals and neighborhoods. MCBC's Banking Services Committee, which includes representatives from financial institutions, community organizations, and public agencies, works closely with the Massachusetts Financial Education Collaborative and the Boston Alliance for Economic Inclusion to support and assist financial education programs and initiatives. The Committee, with the active participation and support of the Massachusetts Division of Banks and the Massachusetts Bankers Association, also oversees ***Basic Banking for Massachusetts***, a unique voluntary effort to provide low-cost accounts to customers with limited banking needs. More detailed information on MCBC and the Banking Services Committee is available on MCBC's website at www.mcbc.info.

Basic Banking for Massachusetts

Basic Banking for Massachusetts was launched in 1994 to expand access to bank products and services and to encourage those with modest incomes to establish banking relationships. The program was developed in response to community concerns that bank accounts were too expensive for customers with limited banking needs. MCBC members, including representatives from both community organizations and financial institutions, developed program guidelines for checking and savings accounts that are intended to ensure that the banking needs of all residents

are met through competitive, profitable and sustainable products. Those guidelines are re-evaluated periodically by MCBC's Banking Services Committee. Each year, banks voluntarily confirm that they provide accounts that meet those guidelines.

Currently, the checking account guidelines call for accounts that:

- Require no more than \$25.00 to open the account
- Charge a monthly fee of no more than \$3.00
- Provide at least 15 free withdrawals, including at least eight checks, per month
- Charge no more than \$1.00 for each withdrawal over the allowable number of free withdrawals

The savings account guidelines call for accounts that:

- Require no more than \$10.00 to open the account
- Charge no monthly fee on account balances of \$10.00 or more
- Charge a monthly fee of no more than \$1.00
- Pay interest on all account balances of \$10.00 or more

This year, 97 banks across the state qualified as full participants in ***Basic Banking for Massachusetts***, meaning that they provide both a checking and a savings account that meet the ***Basic Banking*** guidelines. In addition, 31 other banks have confirmed that they have either a qualified checking or a qualified savings account. Last year, fully participating banks represented approximately 60 percent of all bank branches in the state.

Basic Banking for Massachusetts is not intended to meet the needs of all low- and moderate-income customers. As noted above, the ***Basic Banking*** program was developed in response to community concerns about the cost of banking for customers with limited banking needs and the guidelines that were developed reflect that intent. MCBC has emphasized to our participating banks that accounts that meet the guidelines may not be the right choice for many of their customers, including many of their low-income customers. But, while the guidelines do not target low- and moderate-income customers, a bank's participation in ***Basic Banking for Massachusetts*** can help get low- and moderate-income customers in the door. After more than fifteen years, ***Basic Banking for Massachusetts*** has standing in the community and the message from participating banks is that they are interested in doing business with all segments of their community. Banks promote their participation in a variety of ways, including brochures, branch displays, newspaper advertisements, in financial education classes, in outreach to community-based organizations and by putting ***Basic Banking*** decals on their front doors, a low-key but effective way of advertising that they want to do business.

Incentives

For many financial institutions considering programs targeted to the unbanked and underserved, there are concerns about profitability, regulatory barriers and fraud, concerns shared by banks participating in **Basic Banking**. Information on best practices and successful programs and regulatory guidance can be helpful. Nevertheless, participation in many of the programs targeted to the unbanked and under-banked are labor intensive, whether it involves developing new products, converting existing systems, offering staff assistance to new customers or working with community organizations to provide financial education. Some financial institutions see this as part of their business plans, some see it as the right thing to do but more financial institutions may be willing to consider such programs if there were a more explicit incentive, in the form of Community Reinvestment Act (CRA) credit, to do so.

Two years ago, the Massachusetts Bankers Association and the Massachusetts Credit Union League worked with the Boston Alliance for Economic Inclusion to identify ways to help unbanked and underserved members of the community. Together, they developed a four-part training program that included sessions on the business case for tapping into emerging markets, staffing and bank products, including deposit accounts, electronic remittances and residential and small credit lending. The curriculum was later used to develop a Toolbox Report that was made available to all members on the associations' websites.¹ This past year, Mass Bankers and the Credit Union League surveyed their members on what changes they had made in response to the education programs. A majority of the responding financial institutions (72 percent) confirmed that these products and services were an opportunity to grow new customers. However, the primary value they saw (91 percent) was additional goodwill in the community. That same survey asked how company participation in financial education programs could be increased. The highest scoring response (73 percent) said that financial institutions would participate more if they received more CRA credit. In later MCBC discussions, financial institutions commented that CRA credit could also serve as an incentive for providing more flexible bank products.

In recent months, there has been some discussion and some specific proposals to change CRA, including recommendations to look at increasing the weight given to the CRA Service Test. Under current CRA guidelines, total Service Test activities for large banks only contribute 25 percent to an institution's CRA rating and most of that is related to branch locations. Among smaller banks, Service Test activities are not even included in their CRA examinations except as a "special credit" category. Massachusetts has its own CRA law that applies to state-chartered banks. During its examinations, the Massachusetts Division of Banks asks about bank participation in **Basic Banking** as part of its review of Service Test activities and each year the Commissioner of Banks provides an endorsement letter that is part of the **Basic Banking** sign-up materials. MCBC provides a letter for each participating bank's CRA Public File, confirming its participation.

¹ *Helping the Unbanked and Underserved, Toolbox Report for Financial Institutions* (2008), is also available on MCBC's website at www.mcbc.info/otherreports.

Barriers for Consumers

While the availability of safe, low-cost products is an important piece of encouraging unbanked and under-banked residents to open bank accounts, availability is not the only barrier for many potential customers.

People do business where they are comfortable and, for many local residents, banks are not comfortable places to be. When MCBC surveyed community residents several years ago, over 25 percent told us that the reason that they did not have a bank account was simply that they did not like dealing with banks, over 20 percent said that balancing a checkbook is too complicated and over 25 percent told us that they had problems with a previous account. For many first-time and, in some cases, first-generation bank customers, the lack of basic financial management skills can also be a significant barrier.

For many residents, it is a comfort level issue. Check cashing establishments are more comfortable: they are staffed by people who look and sound like them, they are open evenings and weekends and they often offer a variety of bill-paying services, all in one stop. Changing perceptions is difficult to do. Outreach by financial institutions through community organizations can help to show local residents that bankers can also look and sound like them and that they can offer sound advice and assistance. However, changing behavior is often more challenging. People are generally resistant to change but the right motivation, a good teachable moment and offering the right support can sometimes encourage people to step outside their comfort zones. Even with this effort, however, there are still concerns for many people. For example:

- Many unbanked and underbanked residents live from paycheck to paycheck. Having immediate access to their funds is important in making bill payments on time and in having cash for everyday expenses. Direct deposit can help to minimize this problem but many small companies, which are major employers in urban neighborhoods, often do not offer direct deposit.
- Check cashing establishments are required to post the cost of individual transactions while the descriptions of bank fees are often included only in the fine print of product brochures and/or disclosures. Residents operating on low margins and especially those who have incurred overdraft and late fees in the past, are often more comfortable knowing exactly what they are paying at check cashers, when they pay it.

Comments - Questions

The FDIC is to be commended for developing the proposed templates for safe, low-cost transactional and basic savings accounts. The templates provide important guidance to financial institutions looking to better serve low- and moderate-income and underserved consumers in their community. MCBC strongly agrees with the FDIC's guiding principles and objectives in

developing these templates. On some of the questions raised, MCBC offers the following comments:

- **Expected benefits.** Consumers clearly benefit from obtaining reasonably priced, safe and convenient ways to cash checks, store and save funds, gain access to cash, pay bills and make account-to-account transfers. Bank accounts are less expensive than using check cashing establishments and provide consumers with a legal record of transactions. Successful management of bank accounts can help to build confidence in consumers new to banking. Bank accounts are also often an entry to other mainstream financial services.
- **Number of checks.** MCBC's *Basic Banking for Massachusetts* guidelines call for a minimum of 15 withdrawals, including at least eight checks, each month. The current guideline reflects responses from a consumer survey with MCBC conducted several years ago. The survey showed that low- and moderate-income customers were increasingly using electronic services, including ATMs, debit cards and on-line banking. In response, MCBC changed the checking account guidelines to increase the number of free withdrawals. However, MCBC recognizes that low- and moderate-income and underserved consumers have needs that are as diverse and as individual as any other group of customers. There are low-income customers with many bills to pay each month and who use a variety of payment methods and there are low-income customers with fewer payments and an aversion to modern technology. MCBC has emphasized to its participating banks that, when a bank offers choices of different checking or savings accounts, the bank needs to work with each individual customer to determine the best match. The *Basic Banking for Massachusetts* guidelines are developed to address the needs of customers with limited banking needs. In this case, one size does not fit all.
- **Transactional account fees.** Many banks find it difficult to determine the costs associated with offering a specific transactional account, in some cases, because of systems limitations but, more generally, because the costs are often difficult to predict or to determine. While there is no standard pattern, some MCBC participating banks report that first-time customers often require more staff assistance and guidance in selecting an account, in understanding account features and in managing the account. Transactions often require more time and more explanation. Some banks also report a higher level of very low balance and/or abandoned accounts. For some banks, the issue is further complicated by the market in which they do business and the competition they face.
- **Minimizing costs.** Anticipating the costs associated with offering new transactional and/or savings account is an important consideration for most banks. Some costs, e.g. start-up systems changes for stored-value cards, may be a barrier, especially for smaller banks. For larger banks, the issue may be one of uniformity on a larger scale. When MCBC launched *Basic Banking* in 1994, the first banks to sign up with the five largest banks in the state, all headquartered in Boston. Today, only one of those banks still operates under its original name. The other four banks were, over the years, acquired by

larger institutions, all of them headquartered outside of Boston and, in some cases, outside of the country. While all of these new bigger banks are members of MCBC, few of them are full participants in ***Basic Banking***. The reason is simple: banks grow large to take advantage of economies of scale. Designing separate accounts for specific locations defeats this objective. While ***Basic Banking*** began with strong big bank support, today MCBC's participating banks are largely community banks. Establishing nationwide criteria may help to encourage more big bank participation.

Staffing needs may be more difficult to predict. As noted above, many banks report that first-time customers require more hands-on assistance in selecting and managing an account. Banks can help to minimize these costs by providing new customers with educational materials, e.g. brochures on how to manage your checking account, or with information on on-line or community-based financial education programs and assistance. MCBC's guidelines specifically prohibit participating banks from exclusively limiting ***Basic Banking*** customers to ATMs or any other form of non-teller related services. Since the benefits of offering targeted accounts may be long-term for most banks, helping them to anticipate these costs and offering recommendations on steps to minimize them can be a factor in a bank's consideration of the cost/benefit of developing this kind of new account.

Comments – Templates

MCBC offers the following comments on the templates for transactional and basic savings accounts:

- **Eligibility.** MCBC's ***Basic Banking*** guidelines recommend that “Under ***Basic Banking for Massachusetts***, it is expected that participating banks will use their customary account opening guidelines. However, banks are strongly encouraged to exercise flexibility by accepting alternative forms of identification.” This year, 96 percent of participating banks confirmed that they accept alternative forms of identification.

While not specifically noted in the narrative or templates, the titles of Figure 1 and Figure 2 suggest that these accounts are intended to target low- and moderate-income customers. It is unclear whether these products are intended to be limited to these customers and, if so, how income eligibility would be determined.

- **Basic Characteristics**

Transactional account opening balance deposit requirement. In response to a survey of participating banks several years ago, MCBC increased the required opening balance deposit requirement for the ***Basic Banking*** checking account from \$10.00 to \$25.00. Participating banks pointed out that a deposit of \$25.00 is necessary to cover the printing of checks and any first check payment.

Other features. MCBC's **Basic Banking** differs from other programs in choosing to provide guidelines rather than requiring specific product features. For participating banks, this has allowed them, in many cases, to use existing accounts that meet the guidelines or to start with the guidelines and then add their own mix of features to meet the needs of their customers in their communities. Banks appreciate the flexibility it offers and, for some banks, may make participation easier. On the consumer side, it offers customers a wide range of choices and reinforces the need for customers to shop around for the product best suited to their individual needs.

Recommendations

In response to the FDIC's request for comment, MCBC offers the following general recommendations:

- MCBC encourages the FDIC to provide the templates for transactional and basic savings accounts to financial institutions as a guideline for meeting the needs of many low- and moderate-income and underserved consumers. For many financial institutions, offering such products may require major financial and staff commitments. To assist these banks in evaluating and implementing these accounts, the FDIC should also provide financial institutions with:
 - ✓ Information on successful best practices
 - ✓ Information on anticipated demands on staff and other costs
 - ✓ Ways to minimize the costs of offering such accounts

FDIC guidance should recognize institutional differences in size, capacity, experience and market demand.

- MCBC encourages the FDIC and other regulatory agencies to increase the weight of the Service Test in CRA examinations.
 - ✓ CRA Service Test activities, including innovative and flexible products, financial education programs and other community development services are important prerequisites to encouraging and maintaining low- and moderate-income residents as bank customers. However, under the CRA Service Test, the most weight is devoted to branch locations.
 - ✓ Small and medium-sized banks are particularly well positioned to offer local residents an alternative to more costly check cashing establishments and to respond to their need for fair, transparent and responsive products and services. However, CRA examinations for small and medium-sized banks only measure performance under the

CRA Lending Test. Community development services should receive a greater weight in CRA examinations of small and medium-sized banks.

- ✓ Many un-banked and under-banked residents are reluctant to utilize bank products and services, even when banks have made an effort to provide more flexible products designed to meet their needs. Bank outreach to underserved populations, e.g. financial education programs and materials, targeted marketing, and/or other special efforts to increase consumer comfort levels and trust, should receive recognition under the CRA Service Test.

Once again, MCBC commends the FDIC for developing the proposed templates for transactional and basic savings accounts and we appreciate this opportunity to offer our comments. For any questions regarding these comments, please contact MCBC's Manager, Kathy Tullberg, at 857 350-4916 or via e-mail at ktullberg@mcbc.info.