MEMORANDUM TO: FDIC Board of Directors

FROM: Ellen Lazar / Ellen Lazar
Senior Advisor to the Chairman for Consumer Policy

Barbara A. Ryan
Deputy to the Vice Chairman

DATE: July 27, 2010

SUBJECT: FDIC Pilot for Safe Transactional and Savings Accounts

Recommendation

Staff recommends for approval by the FDIC Board of Directors a pilot to evaluate the viability of safe, low-cost transactional and savings accounts. The pilot will consist of a focus group of no more than nine insured institutions. The pilot is designed to encourage insured institutions to offer transactional and savings accounts tailored to meet the needs of unbanked and underbanked low- and moderate-income (LMI) consumers. Participating insured institutions will offer transactional and savings accounts with core product features identified in the FDIC Model Safe Accounts Template (attached) and will be encouraged to offer the template auxiliary features. Insured institutions also are strongly encouraged to actively market the accounts to underserved consumers. Pilot insured institutions will provide specified information about the accounts. The FDIC will evaluate this information following each quarter in an effort to identify the most feasible, safe, and innovative practices. An initial pilot evaluation and assessment will take place after the first two quarters. A goal of the pilot is to demonstrate to insured institutions the feasibility of products designed to better serve the needs of unbanked and underbanked consumers. The results of the pilot will provide a resource for insured institutions interested in offering these accounts.

Background

Upon approval of the FDIC's Board, the Chairman established the FDIC Advisory Committee on Economic Inclusion (Committee) in December 2006 and extended its two-year charter in December 2008. The purpose of the Committee is to provide advice and recommendations to the FDIC regarding expanding access to banking services by underserved populations. According to the FDIC's landmark study, the "FDIC Survey of Unbanked and Underbanked Households," at least 25.6 percent of U.S. households are underserved.[1] "Underserved" refers to consumers who are "unbanked" or "underbanked." An estimated 7.7 percent of U.S. households are "unbanked" because they do not have a checking or savings account. An estimated 17.9 percent of U.S. households are "underbanked," which means that they have a checking or savings

[1] "FDIC National Survey of Unbanked and Underbanked Households," December 2009. http://www.fdic.gov/householdsurvey/ The data were collected through an FDIC-sponsored Unbanked/Underbanked Supplement to the Current Population Survey conducted by the U.S. Census Bureau in January 2009.

account, but also use non-bank, alternative financial services, such as money orders, check cashing, payday loans, rent-to-own agreements, pawn shop loans, or refund anticipation loans.

On April 1, 2010, the Committee adopted a Strategic Plan with dual objectives of lowering the level of underserved households and increasing the supply of financial products and services targeted to underserved households.[2] To achieve its objectives, the Committee outlined initiatives in several program areas in which it could focus its work, including transactional accounts, savings, affordable credit, financial literacy, and incentives.

The Committee also discussed one of these initiatives — draft templates for safe, low-cost transactional and savings accounts for underserved LMI consumers. The Committee recommended that the FDIC solicit public comments on the draft templates. The FDIC published the templates for comment on May 7, 2010 and received forty-six comments from banks, other financial institutions, state banking agencies, financial industry trade groups, and private citizens by the deadline on June 6, 2010.[3]

The majority of commenters stated that consumers would benefit from having safe, low-cost transactional and basic savings accounts. Many also discussed the role of technology in the design of the template. In particular, a number of commenters expressly suggested that the transactional accounts be checkless and both types of accounts be predominantly electronic-based to lower costs. Banks and their trade associations often stated that they already offer accounts similar to the draft templates. However, when described, the transactional accounts in particular sometimes differed in significant ways from the draft template, for example by featuring fee-based overdraft programs.

Regarding overdrafts, consumer groups and nonprofits were firm that a prohibition on fee-based overdrafts was an essential feature to a safe transactional account. On the other hand, banking industry commenters indicated that a prohibition on overdraft fees would render the accounts too costly to maintain, if the accounts feature checkwriting. Commenters from various backgrounds indicated that additional outreach and marketing about these accounts can help make consumers aware of the safety, convenience and other benefits associated with participation in the financial mainstream. Several commenters also suggested that offering ancillary financial services such as money orders, check cashing, bill payment and domestic or international wire transfers at competitive rates can be an effective marketing tool to build long-term relationships and convert consumers into customers.

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[2] FDIC Advisory Committee on Economic Inclusion, "Strategic Plan, 2010-2012," April 1, 2010. http://www.fdic.gov/about/comein/finalPlan.pdf

[3] FDIC Press Release104-2010, "FDIC Seeks Public Comment on Templates for Safe, Low-cost Transactional and Basic Savings Accounts," May 7, 2010. http://www.fdic.gov/news/news/press/2010/pr10104.html Public comments received are also posted on this site.

After considering the comments received, FDIC staff revised and combined the templates and presented the results at the Committee meeting on June 24, 2010. The Committee discussed whether the FDIC could further revise the template to differentiate between core product features and auxiliary services and whether the FDIC would be interested in launching a pilot to test the sustainability of the accounts. The ultimate goal of the pilot is to encourage insured institutions to offer safe, low-cost accounts that have been proven to be both beneficial to consumers and sustainable for insured institutions.

Description of Pilot Accounts

Features of the proposed FDIC model safe accounts that are to be offered by participating insured institutions in the pilot are shown in the Model Safe Accounts Template (attached). The pilot will focus on electronic depository accounts. These accounts have the potential to lower delivery and maintenance costs by eliminating or limiting many traditionally paper-based transactions. The transactional account would be "checkless," allowing withdrawals only through automated teller machines, point-of-sale terminals, automated clearing house preauthorizations, and other automated means. There is no overdraft or nonsufficient fund fees for these checkless accounts.

Savings accounts would have "autosave" features such as preauthorized periodic electronic transfers from other accounts. Where permitted by applicable laws and regulations, and after obtaining a consumer's consent, both types of accounts may feature electronic statements in lieu of paper. All pilot accounts will be FDIC-insured, have reasonable rates and fees that are proportional to their cost, and be subject to applicable consumer protection laws, regulations, and guidance. The accounts also will be subject to all applicable customer identification requirements, including each institution's Customer Identification Program (CIP).

To qualify for the pilot, insured institutions must offer accounts that include the core features identified in the template, and are strongly encouraged to offer the auxiliary features. Insured institutions also are strongly encouraged to actively market the accounts to underserved individuals. Applicants will be asked to provide a brief description of the insured institution's account program, any information necessary to ensure that the accounts meet the criteria identified in the template, and a description of the insured institution's marketing efforts related to the accounts.

Insured institutions with existing transactional or savings account programs that meet the core product criteria will be encouraged to apply to the pilot. Institutions interested in offering new accounts that meet the core product criteria also may submit applications. Existing and new account programs will be evaluated on a case-by-case basis. Institutions may apply to have a transactional account program, savings account program, or both entered into the pilot. The FDIC is particularly interested in institutions that encourage consumers to open a transactional account that meets pilot criteria and a linked savings account that also meets pilot criteria. The FDIC also is interested in institutions that offer financial education, linked savings accounts, lines of credit, or small-dollar loan programs.

Eligibility for Participation
Volunteers for the pilot must be well-managed and well-capitalized institutions. In order to be considered for participation in the pilot, an insured institution must meet the following criteria.

Eligibility Requirements:

- The insured institution must have been in operation for more than 3 years.
- The insured institution must currently have a CRA rating of Satisfactory or better.
- The insured institution should have Safety & Soundness and Compliance Ratings of 1 or 2, but 3-rated institutions will be considered on a case-by-case basis.

In order to launch the pilot quickly, fewer than ten insured institutions will be selected to participate. The FDIC will approach a number of insured institutions prior to the application process to encourage participation by large insured institutions and interested community institutions. A public solicitation process will follow and the FDIC will consider all eligible institutions. The FDIC retains the right to refuse to allow any insured institution to participate.

Time Frame
The pilot is expected to be conducted over the course of one year, with ongoing evaluations of the pilot conducted each quarter. An initial assessment of the pilot will take place after six months. During the pilot, the FDIC will collect data on the viability of the accounts. The FDIC will select pilot insured institutions and notify participating institutions of their admission into the pilot prior to the start of the fourth quarter of 2010. At the conclusion of the pilot, the FDIC will publish its findings from the pilot.

Information Collection
In order to evaluate the success of the pilot and inform the industry and public of the results, the FDIC will work with participating institutions to collect information on the number, use, success, and profitability of the accounts. Information on each type of account offered by participating insured institutions will be collected at the beginning of the pilot and after each quarter. Quarterly information will be submitted by insured institutions approximately 45 days after the end of each quarter using the FDIC*connect* data interface system. Information will not be used to subject participating institutions to additional examination scrutiny. Participation in the pilot will have no effect on examination frequency.

Participating institutions will be asked to describe the best practices and lessons learned concerning product, service, or feature enhancements that improved account take-up rates, marketing efforts to reach the underserved and the effectiveness of such efforts, and obstacles or challenges that had to be overcome. Other information tracked will be the extent to which pilot banks have opened accounts using alternative forms of customer identification and to which banks opened "second chance" accounts, for consumers with impaired credit histories. The FDIC recognizes that insured institutions are volunteers and that their information systems vary widely, and will work with insured institutions to provide the best data possible.

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FDIC Model Safe Accounts Template

The FDIC Model Safe Accounts Template provides insured institutions with guidelines for offering cost-effective transactional and savings accounts that are safe and affordable for consumers. The electronic deposit accounts are designed to meet the needs of underserved consumers. The accounts reflect the following guiding principles: transparent rates and fees that are reasonable and proportional to costs, access to banking services that feature FDIC insurance, and the protections afforded by applicable federal and state consumer protection laws, regulations, and guidelines. Standard customer identification rules would apply, including verification through the use of a variety of well-established, permissible forms of identification (see 31 C.F.R. § 103.121). FDIC Model Safe Accounts also would be subject to all other applicable federal and state laws and regulations.

Elements of the FDIC Model Safe Accounts

	Transactional Account	**Basic Savings Account**
Core Features and Fees		
Card-based electronic account	√	√
No overdraft or NSF fees	√	–
Interest bearing	–	√
Direct deposit	Free	Free
Automatic saving	Free	Free
Online and mobile banking/ bill pay	Free	Free
Electronic statements (with consumer's consent)	Free	Free
Opening balance	$10 - $25	$5
Monthly minimum balance	$1	$5
Monthly maintenance fee	Up to $3	None, if minimum balance is met
Money orders/e-checks	2 free per month, additional for a fee that is reasonable and proportional to the cost	–
Check cashing	Drawn on insured institution: Free Not drawn on insured institution: Fee that is reasonable and proportional to cost	Drawn on insured institution: Free Not drawn on insured institution: Fee that is reasonable and proportional to cost
General funds availability (subject to appropriate exceptions, e.g. large deposits)	Same day or next day from an established customer	Same day or next day from an established customer
Auxiliary Services and Fees		
Financial education	Free	Free
Linked savings account	Transfer fees that are reasonable and proportional to cost	--
Line of credit	Rates and fees that are reasonable and proportional to cost	–
Small-dollar loans (less than $2500)	Terms and conditions consistent with the FDIC's Safe, Affordable, and Feasible Template for Small-Dollar Loans	Terms and conditions consistent with the FDIC's Safe, Affordable, and Feasible Template for Small-Dollar Loans
Kiosk bill payment	Fees that are reasonable and proportional to cost	Fees that are reasonable and proportional to cost
Domestic and international wire transfers	Fees that are reasonable and proportional to cost	Fees that are reasonable and proportional to cost