Martin J. Gruenberg

Chairman

Federal Deposit Insurance Corporation

to the

National Interagency Community Reinvestment Conference

Los Angeles

February 8, 2016

Good morning. And welcome to all of you. This is a huge turnout for this year's conference and a testament to how dedicated you, and the organizations you represent, are to helping people across the country achieve economic opportunity.

I greatly appreciate the hard work by our partners to organize the conference, specifically the Federal Reserve Bank of San Francisco, the Office of the Comptroller of the Currency (OCC), and Treasury's Community Development Financial Institution Fund.

I also especially want to thank Emerson Hall, regional manager for community affairs at the FDIC, for his leadership and support for this conference as well as the FDIC's economic inclusion work here in California.

Thanks also to Mayor Garcetti for his support of the LA Alliance for Economic Inclusion and the proclamation last week promoting its LA Saves Campaign, which highlights the importance of saving throughout the underserved communities of Los Angeles.

The FDIC's mission is to promote public confidence and stability in the banking system. While deposit insurance is a key factor in sustaining public confidence, consumer trust in the financial system is just as important. Put simply, consumer confidence is enhanced when banks treat all their customers fairly and help them achieve their financial goals.

For U.S. households, this means access to safe, secure, and affordable banking services that give them the tools to pursue pathways to economic opportunity, such as building assets, getting a good education, buying a home, or starting a business. For banks, this means new opportunities to provide financial services directly to underserved individuals as well as to the broader community of the local institutions and businesses that serve them.

These are the positive and productive relationships that all of us here today seek to support, whether you are a bank officer, a community development professional, or a regulator.

The FDIC works to promote economic inclusion in many ways. This morning I want to focus on three in particular.

First, I would like to share what we have learned from our research about consumer access to financial services, and how developments such as the continued growth in mobile banking might expand ways to successfully serve diverse consumer needs.

Second, I will discuss our Safe Accounts pilot program and how it has helped increase the availability of sustainable, entry-level accounts for underserved consumers.

Finally, I want to talk about the connection between the Community Reinvestment Act (CRA) and economic inclusion, and ongoing efforts by the agencies to clarify important factors considered during CRA performance evaluations.

FDIC Research

Let me turn first to our research. In order to have better data to help develop effective economic inclusion strategies, and in response to a statutory mandate, the FDIC periodically conducts national studies that explore household use of financial services.

The FDIC National Survey of Unbanked and Underbanked Households is conducted in partnership with the Census Bureau every two years. It estimates the size of these populations, describes their demographic characteristics, and provides insight into opportunities to address the financial services needs of consumers.

The most recent survey results, from 2013, show that substantial portions of the population remain unbanked or underbanked:

- 7.7 percent of U.S. households do not have a bank account.
- 20.0 percent are underbanked, meaning that they have a bank account but have also used alternative financial services in the past year.

Results for Demographic Groups

As we found in earlier surveys, unbanked and underbanked rates remain particularly high among African-American, Hispanic, and Native American households; households with lower income and education levels; young households; and households experiencing unemployment. Our 2013 survey also showed that households headed by individuals with a disability are less likely than the general population to have a bank account, and more likely to use alternative financial services even when banked.

Let me give you some specific figures for illustration.

Among lower-income households, those with annual incomes below $30,000, almost one in five (19.0 percent) are unbanked and nearly one in four (23.8 percent) are underbanked.

For black households, more than one in five (20.5 percent) are unbanked and a third (33.1 percent) are underbanked.

And we find that one in six Hispanic households (17.9 percent) are unbanked and nearly three in ten (28.5 percent) are underbanked.

For households headed by a working-age individual with a disability, one in six (18.4 percent) are unbanked and more than one in four (28.1 percent) are underbanked.

Young people are also disproportionately unbanked. For example, for youth aged 15 to 17, more than 75 percent do not have a bank account, and for those 18 to 20 years old, the proportion unbanked remains at 50 percent.

But while these figures show that access to mainstream services continues to lag among these populations, the survey also shows that banks can serve diverse needs. Even among these groups, about half of households are fully banked. The challenge then is how to extend inclusion further.

Implications

FDIC survey results raise several important implications about ways to successfully serve diverse consumer needs.

First, we should recognize that banking status is dynamic. Many households enter and exit the banking system each year. In fact, we see that almost half of unbanked households (45.9 percent) have had an account in the past.

The survey shows that many households that experienced banking transitions also had changes in their employment and income. For those leaving the banking system, one-third (34.1 percent) said that a job loss or significant drop in income was a contributing factor in their decision.

At the same time, employment changes also help explain many transitions into the banking system; one in five households that recently opened a bank account said that a new job was a factor in their decision to open a bank account. Moreover, more than one-third (34.2 percent) of recently banked households also reported that receiving direct deposit was the main reason they opened an account.

Taken together, these results suggest that interventions or product features designed to help households initiate, as well as maintain and renew, their banking relationships through economic challenges may reduce unbanked rates over time.

This may mean, for example, reaching out to consumers starting new jobs or enrolling in benefits programs with opportunities to open an account. For example, workforce development and social service organizations in your community might foster connections to financial services for their clients. It may also mean structuring a bank account to waive fees if the consumer uses bill pay services, rather than requiring them to maintain a certain balance, which can be difficult for households experiencing unemployment or receiving certain benefits.

Moreover, I understand that a number of you in the room support youth employment initiatives that incorporate financial education and access to safe banking accounts to promote a banking relationship for youth receiving their first paychecks. The FDIC is also working to promote this connection. Linking financial education with an opportunity to open a safe, low-cost savings account can help young people better develop good savings habits and promote financial inclusion for students and their families.

To further encourage young people, particularly low- and moderate-income youth, to build banking relationships, the FDIC is sponsoring a Youth Savings Pilot. In its second year, we are now working with 21 financial institutions to help identify the most promising approaches to connecting financial education in schools with access to savings accounts. A report on this initiative will be shared at the end of 2016. The FDIC has also recently released four age-appropriate Money Smart for Young People curricula that can help promote financial education among young people.

A second implication from the FDIC survey findings is that mobile financial services—or MFS for short—offer intriguing possibilities for helping to expand economic inclusion.

More than two-thirds (68 percent) of unbanked households and more than 90 percent of underbanked households own a mobile phone. While smartphone ownership lags somewhat among the unbanked (33.1 percent), underbanked households (64.5 percent) are actually more likely to have a smartphone than the fully banked (59.0 percent).

And, in fact, underbanked mobile phone users are actually more likely to have used mobile banking and are more likely than fully banked households to rely on it as their primary banking method.

To follow up these findings, the FDIC conducted consumer research in 2015 on the ways that MFS can help expand economic inclusion in the banking system. We reported preliminary findings at the most recent meeting of the FDIC's Advisory Committee on Economic Inclusion. In consumer focus groups, people told us about their needs for control, access to their money, convenience, and affordability, among others. They see significant benefits from immediate

access to account information, as well as helpful reminders and balance alerts to help keep them on track with their finances.

These results indicate that by providing more and timely information on balances and transactions, MFS may give consumers an important element of control over their financial lives and may help address some of the underlying reasons consumers report for being unbanked. These include unexpected fees or worries about low balances.

Although we know that mobile services are being rapidly adopted by a wide variety of consumers and institutions, it is not clear whether the technology's full potential is being leveraged to expand inclusion in the banking system. A recent FDIC white paper noted that MFS likely will only recognize its economic inclusion potential when thoughtfully designed and integrated into a bank's overall strategy.

The third and final implication from the survey that I want to discuss today relates to the fast-growing use of prepaid debit cards among the unbanked and underbanked.

Between 2009 and 2013, the proportion of unbanked households that indicated they had ever used a prepaid card more than doubled; the most recent data show that more than one in four unbanked households have used a prepaid card (27.1 percent).

In fact, in 2013, a majority of all households (55.0 percent) using prepaid cards in the previous 12 months were either unbanked or underbanked.

Moreover, consumers using prepaid cards generally report that they received them from nonbank sources, but are using them to conduct the same sort of day-to-day transactions associated with bank accounts.

It may be interesting then to learn that almost half (46.5 percent) of unbanked households that used prepaid cards in the past year report that they are somewhat or very likely to open a bank account in the future.

All told, these results suggest that opportunities exist to meet these consumers' needs in the banking system.

Safe Accounts Initiative

Let me turn now to our Safe Accounts Initiative.

An account relationship is fundamental to participating in the mainstream banking system. In many ways, opening an account with an insured bank is a stepping stone to economic opportunity. But it is critical that consumers are matched with accounts that meet their needs.

To facilitate sustainable banking relationships, the FDIC developed a Model Safe Account template. The template describes transaction and savings accounts that are transparent, low cost, easy to understand, backed by established consumer protections, and insured by the FDIC.

The transaction accounts are structured around account-based debit cards. By using card-based and electronic transactions, costs are lower for institutions, overdraft or insufficient fund fees are eliminated, and consumers develop a full banking account relationship with low fees and low minimum-balance requirements. Nine banks piloted the accounts for one year in 2011.

Since we published the results of our pilot in 2012, some banks, including both regional and large money center banks, have introduced accounts consistent with the Safe Accounts structure.

One institution reports that more than half of all new accounts are these easy-to-use products, that serve a broad range of customer segments, including underserved groups. Another reports that about half of the accounts are being opened by those using branches in low-and moderate-income communities.

One large bank has found that new customers using its card-based account used mobile banking more often than people with traditional checking accounts, giving the bank opportunities to add account features that make it more likely the customer will sustain and grow the relationship with the bank over time.

Following the principles of the Safe Account, these card products can help consumers meet basic transactional needs while providing security for their funds and access to a broad range of bank products and services.

FDIC analysts estimate that more than 80 percent of the U.S. population lives in a county with one or more full-service branches of banks that offer Safe Accounts.

But a product alone is not enough to ensure that consumers will take advantage of the opportunities provided by these accounts. Promoting effective access and use are also important.

Recently, a national Bank On initiative was launched with the active support of the Cities for Financial Empowerment, a coalition of city leaders and others working in communities across the country to expand access to the financial system. Bank On programs reinforce the potential to link safe and affordable bank accounts to municipal initiatives that strengthen communities,

including workforce services, housing counseling, and youth initiatives. At an event last fall in San Francisco, Mayor Ed Lee and Treasurer Jose Cisneros highlighted the city's approach to bringing banking products that meet safe standards to more low- and moderate-income households. Cities for Financial Empowerment plans to help encourage other cities to renew their commitment to Bank On. These coalition initiatives deserve the attention of local officials, community leaders, and financial institutions so that the connections can be strengthened between safe accounts and local communities.

CRA and Economic Opportunity

Finally I want to say a few words about CRA and economic inclusion, because they are closely related.

At the heart of CRA is making sure that everyone has access to financial services, including low- and moderate-income individuals and communities. By regularly evaluating their CRA performance and providing public ratings, the financial regulatory agencies encourage financial institutions to help provide broader access. . Positive CRA consideration is generally given for such activities as lending, investments, and services that are both consistent with safe and sound practices and that benefit low- and moderate-income people and neighborhoods.

The agencies give more weight to activities that are responsive to the needs of the community. What do I mean by that? Products should be effective, and partnerships should demonstrate real results that are sustainable over time.

To keep up with changes in the industry, the FDIC, OCC, and Federal Reserve are revising the interagency questions and answers on community reinvestment that address important factors considered during CRA performance evaluations.

We have proposed revisions and clarifications to the Q&As and expect to finalize them in the near future.

Through this process, we are proposing a clearer range of examples of community development and retail banking services. For example, institutions that provide low- or moderate- income people with access to low-cost savings and checking accounts, such as the Safe Accounts I discussed earlier, typically receive consideration under the CRA. So, we are clarifying how such products addressing credit needs in a safe and sound manner may be considered innovative and flexible, one of the criteria for positive consideration under CRA.

In addition to providing guidance, we participate in listening sessions in which community organizations discuss their needs and access issues with us.

The banking agencies also work together to facilitate meetings where financial institutions share promising practices and where we can address CRA questions from bankers. These meetings continue to emphasize the needs of communities for affordable mortgage lending and small business credit, two important contributors to economic opportunity. And they introduce participants to the latest developments from federal, state, and local programs.

We welcome your involvement in these meetings. If you are interested, please contact the community affairs department at your regulatory agency.

Conclusion

Over the next few days, I encourage you to talk to each other and share ideas about new types of accounts and financial access, credit initiatives, affordable housing access, entrepreneurship, and other ways to create pathways to economic opportunity. Strong banking relationships encourage savings, improve credit and borrowing for critical household needs at a reasonable cost, and build wealth. Such relationships support strong communities and provide a better platform for banks to grow their businesses, and in turn, strengthen public confidence and stability in America's financial system.

Thank you very much.