Remarks by

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Financial Inclusion - Expanding Economic Opportunity

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Good morning. I would like to begin by thanking Maurice Jones and the Local Initiatives Support Corporation (LISC) for the invitation to be here today. It is a great privilege to take part in this program with Maurice and Bob Rubin.

I have long been an admirer of LISC and the extraordinary contribution it has made to community development in the United States. LISC takes a broad view of what constitutes community development. In addition to supporting the development of hundreds of thousands of units of affordable housing and billions of dollars of investment, LISC's vision of community development is a holistic one that includes jobs, education, health care, and access to affordable banking services. It is an inclusive vision based on the belief that the strength and competitiveness of our economy ultimately depend on giving everyone an opportunity to participate and contribute.

Over time, LISC and other community development practitioners have shown that their work can make a great difference. To illustrate this, I would like to share a personal anecdote, if I may.

I grew up in the Bronx, and my first job out of school was as an aide to my local Congressman. This was in 1980—the same year LISC was established. While I lived and worked in Washington at the time, one week each month I went up to the Bronx to work on housing and community development projects. I came to know well the leading community group in the district, the Northwest Bronx Community and Clergy Coalition, and the leaders of two community organizations: Jim Buckley of the University Neighborhood Housing Program and John Reilly of the Fordham Bedford Housing Corporation.

As you know, the rebuilding of the Bronx over the past 35 years is one of the great urban success stories. A few years ago I had the opportunity to visit the Bronx and see the progress that has been made. When I got on the bus that was going to take us around, who was there leading the tour—Jim Buckley and John Reilly. Block by block and building by building, Jim and John pointed out the rehabilitation and construction work that had been done. They could show the enormous progress that had been made over the course of 30+ years.

The tour was perhaps the greatest object lesson I have had regarding community development. What I saw was how community organizations, over time, had developed great expertise in development and finance. Just as important, they established strong working relationships with local financial institutions and with local and state officials, and developed a process to ensure these groups work together and pool resources to make progress on a sustained basis.

I share this story with you because, as I noted, LISC was established in 1980. What the University Neighborhood and Fordham Bedford groups have done in the Bronx, LISC has done in localities across the country. When all is said and done, I've come to the conclusion that the single most important aspect of this business is staying with it and sustaining the work at a high level over time to really make a difference.

Jim Buckley and John Reilly, who by the way are here this morning, certainly have that commitment, and I think I can say LISC does as well.

Now if I may turn to the subject I would like to talk about this morning.

The FDIC was created in 1933 to restore public confidence in our banks and to encourage people to participate in the banking system and our larger economy. The financial system and our economy are very different today, but the fact is that there are still millions of households in the United States that do not have access to a bank account. They are, in other words, unbanked. There are millions more households that use high-cost, non-bank financial services, even if someone in the household has a bank account. We refer to these households as underbanked.

The limited participation of unbanked and underbanked households in our country's mainstream financial system has significant economic consequences and is an issue of central interest to the FDIC. It goes to the core of our mission to maintain public confidence in the banking system.

Benefits of Financial Inclusion

In the United States, a relationship with an insured financial institution is a stepping stone to households' full participation in the economy. Establishing a banking relationship and setting financial goals are critical steps toward financial well-being.

Something as basic as an insured deposit account gives households the ability to safely deposit income, make payments toward monthly obligations such as rent or a mortgage, and engage in convenient daily transactions, such as buying groceries or more durable household goods. Bank accounts also come with important consumer protections, such as those that limit consumer liability in the event of unauthorized transfers.

In addition, a banking relationship can help families to save, establish credit histories, and obtain credit on fair and favorable terms. When delivered with attention to the needs of consumers, this bundle of services and products can help families manage their finances and achieve their goals.

For the remainder of my remarks this morning, I will focus on the FDIC's efforts to expand financial inclusion and build the financial capability of households and small business owners. As I do, I would invite you to consider how this work can inform and complement the important work your organizations are doing to strengthen low-income communities.

Who is Unbanked and Underbanked?

At the FDIC, we've been working to expand inclusion in the banking system for a number of years. As a starting point, we wanted to understand who is unbanked and underbanked in the United States. We thought it was important to produce reliable data that could be used not only to inform and support policy making and initiatives at the national level, but on a regional, state, and local basis as well.

Starting in 2009, the FDIC began a partnership with the Census Bureau. Every two years we work with the Census to conduct the FDIC National Survey of Unbanked and Underbanked Households. This survey provides reliable measurements on access to and use of bank and non-bank financial services at the national and state level and for larger metropolitan areas.

In our most recent survey, published late last year, the FDIC reported that 7 percent of households were unbanked, lacking any account relationship at an insured institution.[1] The survey also showed that an additional one in five (or 19.9 percent of) households were underbanked. Altogether, the survey reported that some 90 million Americans, or nearly 27 percent of households, are unbanked or underbanked.

[1] Full results of the 2015 FDIC National Survey of Unbanked and Underbanked Households are available at http://www.economicinclusion.gov.

The survey report showed that the proportion of the population that is unbanked had fallen for two consecutive surveys and is down from 8.2 percent in 2011. FDIC analysts report that the change was larger than what might have been expected based solely on improving economic conditions over this time period.

Still, the survey provides ample evidence that much work remains to be done. Large segments of the U.S. population remain much more likely to be unbanked or underbanked, including 42 percent of households with incomes below $30,000 per year and nearly half of African American households, Hispanic households, and households headed by a working-age individual with a disability.

Safe Accounts

Building on the insights gained from the survey, the FDIC has undertaken a number of initiatives to expand financial inclusion. A key area of focus has been creating access to low-cost, safe transaction accounts.

We began by initiating the FDIC Model Safe Accounts Pilot in 2011.[2] Banks that participated in the pilot enrolled consumers in electronic transaction accounts that relied on debit cards, without a check-writing feature, to provide access to funds. The accounts were structured without overdraft or nonsufficient funds fees, with low or no minimum balance requirements, and with low, transparent monthly fees.

In response to positive pilot results, the FDIC has focused on supporting efforts to make these accounts more widely available. Since the pilot, a number of banks around the country, including some of the largest, have introduced accounts consistent with the features of the FDIC Safe Account. FDIC analysts estimate that nearly nine in 10 Americans now live in a county with a full-service branch of an institution that offers a Safe Account.

In our view, making the accounts available is an important first step. We now want to make sure that consumers who would benefit from Safe Accounts are aware of their availability and are

[2] The final report on the FDIC Model Safe Accounts Pilot is available at https://www.fdic.gov/consumers/template/safeaccountsfinalreport.pdf.

able to access them.[3] To this end, we have been working in partnership with Cities for Financial Empowerment, the Bank-On movement, FDIC-sponsored Alliances for Economic Inclusion (AEIs), and LISC's Financial Opportunity Centers to connect unbanked consumers with institutions that offer these accounts. I will come back to LISC's Financial Opportunity Centers later in my remarks.

In our local work, we find partners in banks, community groups, state and local officials, and philanthropic organizations that share the common goal of bringing unbanked and underbanked households more fully into the mainstream banking system. Key elements of these local efforts include providing consumers with practical financial education, encouraging banks to advertise safe accounts, and making sure that branch staff are aware of the accounts' benefits and are prepared to offer the product to customers who would be well-served by them.

In talking to some of the institutions that offer Safe Accounts, we have learned that accounts with these features have been quite popular and turn out to have broad appeal across their customer base—particularly to millennial customers. In other words, these accounts appear to have significant business value, in addition to their value as a vehicle for access to the banking system.

The Potential of Mobile Financial Services

In addition to our work on Safe Accounts, the FDIC has conducted research on how mobile banking options can lead to more sustainable banking relationships.[4] Since about half of the unbanked population in the United States previously had an account, the question of how we better retain consumers' participation is important.

There is reason to think that the potential of mobile financial services is significant. Compared to the fully banked, the FDIC's survey data show that underbanked households are more likely to have a smart phone, more likely to use it to conduct banking activities, and more likely to use it

[3] An FDIC survey of insured banks shows that while some large banks with many branches offer Safe Accounts, most banks have not yet adopted a Safe Account as a basic, entry-level transaction product. This suggests that efforts to help interested consumers identify Safe Accounts are important.
[4] *Opportunities for Mobile Financial Services to Engage Underserved Consumers: Qualitative Research Findings* is available at https://www.fdic.gov/consumers/community/mobile/mfs_qualitative_research_report.pdf.

as their primary means for accessing their account. Moreover, in 18 focus groups we conducted across the country, underserved consumers indicated that they see the mobile channel as having the potential to improve their sense of control, affordability, and convenience in their banking relationships. For instance, many consumers described using their phones to check available balances prior to making purchases to better manage their finances and avoid unwanted fees.

This seemed to us to be an important insight. It indicated that a low threshold use of the technology—the ability to monitor balances on bank accounts—could have meaningful financial value. It is an example of how technology can be used to benefit low-income, underbanked consumers—in our view, one of the key challenges to the banking system going forward.

Financial Education

The FDIC's commitment to financial inclusion extends beyond Safe Accounts and mobile financial services. A third area I would like to touch on briefly is financial education.

The FDIC's Money Smart curriculum, begun more than 16 years ago, offers tools that partner organizations can use to teach basic financial information and develop financial management skills.[5] We have modules targeted at every age group from children to older adults. Some of these resources have been translated into nine languages and some are also available as online, self-paced courses.

We also have materials developed for small businesses. These materials complement the FDIC's Community Affairs team's work in bringing together resources that support new and small businesses serving low- and moderate-income communities. The team works to connect small business owners with small business development organizations and bank partners, and helps these new market entrants become bankable.

I would stress that all of the FDIC's financial education resources are available for free for use or adaptation. Based on year-to-date data, we expect more than 200,000 downloads of Money Smart materials in 2017.

[5] The FDIC's Money Smart curriculum is available at https://www.fdic.gov/consumers/consumer/moneysmart.

A particular focus of our financial education work has been related to youth savings.

Earlier this year, the FDIC released findings from a Youth Savings Pilot, in which we worked with 21 financial institutions, more than 100 schools, and several non-profit organizations to link classroom-based financial education with the opportunity to open youth savings accounts.[6] During the 2015-2016 school year, more than 4,500 students opened savings accounts at participating banks.

To help more banks learn from the pilot, we continue to support a Youth Banking Network to share proven approaches to youth banking and financial education in schools, in large part through facilitating communications among engaged institutions.

There are other FDIC initiatives of note, including our Money Smart program for newly employed youth, financial counseling support for workers during job transition, and a 64-page guide detailing strategies for community banks to develop partnerships with Community Development Financial Institutions.[7]

LISC's Financial Opportunity Centers

Before I conclude this morning, I wanted to acknowledge the important work that LISC has undertaken through its network of Financial Opportunity Centers to establish a comprehensive approach to workforce development, and the opportunity the network offers for further collaboration with the FDIC.

In April, Maurice was a keynote speaker at a conference the FDIC hosted to bring together financial institutions, community groups, local civic leaders, and others to explore successful efforts that have been developed to expand financial inclusion.

In his remarks, Maurice highlighted the role of LISC's 80 Financial Opportunity Centers around the country in helping to increase low-income families' financial prospects by providing

[6] More information about the FDIC's Youth Savings Pilot is available at https://www.fdic.gov/consumers/assistance/protection/depaccounts/youthsavings/index.html.

[7] *Strategies for Community Banks to Develop Partnerships with Community Development Financial Institutions* (March 2014) is available at https://www.fdic.gov/consumers/community/cdfi/index.html.

financial counseling, employment assistance, and help with public benefits.[8] Center counselors encourage program participants, 42 percent of whom have no bank account on entry, to open an account.[9]

His remarks, and the work of center staff, highlight how addressing the needs of unbanked and underbanked consumers is an important aspect of LISC's work to strengthen communities. There seems to be a clear opportunity for increased collaboration between FDIC financial inclusion efforts and LISC's Financial Opportunity Centers.

Conclusion

In conclusion, the issue of financial inclusion goes to the core of the FDIC's mission of maintaining the public's confidence in the banking system and providing a safe and secure place for people to access financial services.

I would encourage each of you to think about how the FDIC's financial inclusion work complements your own, and to identify ways in which we can work together to reach our common goal of making communities better places to live. We actually have more resources, more data, more relevant products, and a greater opportunity than any time in recent memory to bring more people in the United States into the banking system and the economic mainstream. The lesson from Jim Buckley, John Reilly, LISC, and I am sure many of you here today, is that if we stay with it, we can make a difference. Thank you once again for the opportunity to speak with you today.

[8] *First Steps on the Road to Financial Well-Being: Final Report from the Evaluation of LISC's Financial Opportunity Centers*, Economic Mobility Corporation, Anne Roader (September 2016) at page 8.
[9] Id at 24.