crc
CALIFORNIA REINVESTMENT COALITION

May 6, 2015

Gary Kuiper and John Popeo, Counsel
MB-3007
Federal Deposit Insurance Corporation
550 17th St. NW
Washington, DC 20429

RE: National Survey of Unbanked and Underbanked Households; OMB Number: 3064-0167

Dear Sirs:

Please accept these comments from the California Reinvestment Coalition on the FDIC's National Survey of Unbanked and Underbanked Households.

CRC is a coalition of about 300 nonprofit organizations that work to strengthen the financial capacity of low and moderate income communities across California, including urban and rural communities, immigrant communities, and communities of color. CRC advocates on behalf of these communities to change policies and practices in the financial services industry that impede household and community financial capacity and strip away much needed assets rather than help build them.

We very much appreciate the FDIC's National Survey of Unbanked and Underbanked Households. The data you have developed has been incredibly helpful to advocate for affordable family financial services. CRC used the 2011 survey results, along with the FDIC's Safe Account pilot and many other resources to form our SafeMoney standards for bank accounts. The standards include: no monthly fee with a low amount of direct deposit, no overdraft possible with debit card transactions, flexible identification requirements and generous ChexSystems policies among other things. Thankfully, we are now able to recommend accounts that come close to meeting these standards to unbanked and underbanked households.

We now encourage the FDIC to add questions, and use data, to better help banks and other organizations to better meet the needs of unbanked and underbanked households.

474 Valencia Street, Suite 230 San Francisco, CA 94103 tel 415.864.3980 fax 415.864.3981 www.calreinvest.org

Survey data should be used to measure bank CRA performance in meeting deposit service needs and reducing the number of unbanked and underbanked households.

We believe that the best possible use of these surveys is as a measure of how well banks are meeting the need for deposit services under the Community Reinvestment Act. There are myriad ways to accomplish this including with the addition of new questions to the survey.

After the 2011 survey, CRC began asking banks to track or estimate the number of new account openings by customers who were previously unbanked or underbanked. Several major banks have developed bank accounts and other services specifically designed to provide services to those who are unbanked or underbanked, such as Bank of America, Citibank, and Union Bank. Only JPMorgan Chase, however, has publically released information about how well their Liquid prepaid card product is providing services to previously unbanked and underbanked customers (see https://www.fdic.gov/about/comein/2013/2013-05-16_presentation_wilk.pdf).

More banks would begin tracking this information, if they do not already, and providing it to regulators and to the public, if the FDIC and other CRA regulators used it to measure how well banks are meeting the needs of unbanked an underbanked households in bank CRA performance evaluations. The FDIC should organize available data into sets of common bank assessment areas, such as metropolitan statistical areas, and provide it to CRA examiners to use as part of the performance context section of CRA evaluations. Examiners and banks can then use the data to determine how well banks are meeting the needs of these communities by looking at factors such as whether the number of unbanked and underbanked households decrease over time and how many previously unbanked and underbanked households became bank customers.

Another way to approach this would be to ask, in the next survey, unbanked households to name the banks they have held accounts with in the past, any banks that have denied them services, and previously unbanked households to name the institution that now holds their deposits. In addition, the FDIC could develop a longitudinal approach to a subset of previously surveyed households to identify the institutions where they have sought to open accounts, if they were denied or provided services, and if they have since opened accounts, how long they have maintained a successful banking relationship. All of this data would add tremendous value to the industry and advocates for asset development, financial capacity, and financial justice who have been searching for measures of effective interventions without the benefit of large scale analytics.

The next survey should ask about the impact of overdraft fees, prior account closures, and credit reporting bureaus.

Although the FDIC has asked about life events affecting status of account ownership, it has not inquired directly about involuntary account closures, overdraft fees or credit bureau reports that severely impede the ability of households to obtain accounts. Reports by credit bureaus like ChexSystems, TeleCheck, and Early Warning System are a major reason that unbanked households become and stay unbanked for extended periods of time. (See, “Over a Million Are Denied Bank Accounts for Past Errors”, By Jessica Silver-Greenberg, New York Times, July 30, 2013).

Often, these reports follow involuntary account closures by banks. The CFPB has found that “[t]he great majority of involuntary account closures [at banks they studied] are due to negative balances that accountholders are unable or perhaps unwilling to repay, and many of these closures are associated with the use of overdraft (although other unpaid fees or returned deposits may also contribute to some negative balances).” (CFPB Study of Overdraft Programs, June 2013). Qualitative studies of public benefits recipients by both CRC and the New America Foundation have also found that many low income families “don’t do banks” because of fear of overdraft and other fees they unpredictable, uncontrollable or excessive. (“We Don’t do Banks,” New America Foundation, May 2012; “We Don’t Need to be Charged for Being Poor,” CRC, May 2015).

The FDIC should ask households that are unbanked and underbanked whether they have experienced an involuntary account closure or if they have closed accounts voluntarily and why, listing overdraft fees specifically as one of the possible causes for closure. The FDIC should also ask whether survey respondents know if they have been reported to ChexSystems, TeleCheck, or Early Warning System, the reason for being reported (if they know) and whether they have ever been denied account services or had other negative impacts related to account ownership because of such reports.

This data would help banks, regulators and advocates address the need for reforms of overdraft, account closure, and credit report policies that unfairly impede the ability of households to obtain and maintain accounts. For example, Citibank, Capital One and Santander have recently changed their use of ChexSystems to provide clarity to would be customers and to limit the number of customers that would be unnecessarily and unfairly denied services. We could also determine how well banks have prevented or reduced account closures by limiting overdraft, such as Bank of America, Citibank, and Union Bank which all offer accounts that are safe from the possibility of overdraft by debit card charges.

With better data, banks may be able to provide better services to unbanked and underbanked households that have a source of direct deposit.

CRC has been working with the California Department of Social Services and with allied organizations to lower the cost of basic financial services used by recipients of pubic income supports, including by increasing the use of direct deposit. Many banks will waive monthly service fees if account holders receive monthly direct deposit. That can be a boon to millions of households that receive Temporary Aid for Needy Families, unemployment insurance, disability, Social Security, paid family leave and other government issued income supports that can be delivered via direct deposit. Unfortunately, many participants in these programs do not know that direct deposit is an option or that it can help them lower the cost of financial services.

The FDIC should ask unbanked and underbanked households whether they currently receive or expect to receive any of these income supports in the next year and if they have considered opting to receive them via direct deposit. We recently asked this question in surveys of California CalWORKs and General Assistance programs and confirmed that even though direct deposit is available, most recipients did not know it is an option. The FDIC has the ability to ask this question on a large scale. Doing so would help determine the overall market for these customers and increase the likelihood that banks and government agencies take necessary steps to help connect them to appropriate services.

Many would be account owners have forms of identification that banks could but do not currently accept for account opening.

Another barrier to opening accounts are the forms of identification that many banks require. CRC has asked banks to allow customers to use common alternatives to drivers' licenses and social security cards as proper identification, including Individual Tax Identification Numbers (ITINs) , Matriculas Consular (Consular Identification Card), and municipal identification cards. The FDIC should ask unbanked and underbanked households what forms of identification they have and whether they have ever been denied financial services because of it. The list of options should include ITINs, foreign government issued photo ID such as passports and Matriculas Consular, municipal ID Cards, or other government issued photo ID.

Data about household income and assets will help identify trends in financial service needs without unduly burdening survey respondents.

Although CRC advocates on behalf of low income communities, we also know that there are many other households who have difficulty meeting household needs for financial services. For this reason, we strongly support the suggestion that the FDIC should ask households about their income levels and asset size. Although we expect the data will show that low income households make up a disproportionate number of unbanked and underbanked households, we all need better data to understand where the income differences lie and whether additional correlations can shed light of how to better meet the needs of different segments of these communities.

For example, we expect that a fair number of low income households that do not have accounts also receive income that can be directly deposited. Knowing the size and location of this market can help us develop outreach efforts that will be more effective than those developed to get the business of higher income households who are unbanked because of ChexSystems reports.

We also believe that questions about income levels and asset size are not unduly burdensome, especially if survey participants are asked to identify the best fitting categories of income and assets rather than to state exactly how much they make or have. Along with questions of race, ethnic and language spoken at home, questions about income and assets are common in surveys of all types. We do not believe that most or even many participants will refuse to answer these questions.

Data about distance of the nearest bank branch and use of technology will help banks develop delivery methods that will most effectively reach unbanked and underbanked households.

So many banks are now providing online and mobile app-based financial services that regulators are now being asked to provide positive CRA credit for these activities. While we agree that many of these services are valuable as an addition to branch services, we strongly object to them as strategies to replace branch services. Research by National Council of La Raza and others confirm that communities of color and immigrant communities strongly prefer branch based services over more tech-based ones. ("Baking in Color," National Council of La Raza, et al, 2014).

Here again, the FDIC has the capacity for large scale research to help understand the effect of branch location and technological delivery of financial services on the number of unbanked and underbanked households. It is not necessary for households to know exact distance from the nearest branch, the more valuable data is to know their perception of how difficult it may be to get branch services. For example, it is likely that many unbanked households will also have limited forms of transportation. That alone increases the cost of accessing financial services even if the nearest branch is only two miles away. Therefore, the FDIC should ask households how far the nearest bank branch is as well as how easy it is to get there.

The FDIC should also ask households if they currently use and or how likely they are to use tech-based financial services exclusively or in addition to branch services. We expect this data to correlate strongly with age, income, and distance to nearby bank services. Knowing this will help confirm whether tech based strategies are an effective way to provide account services and whether they have the potential to be effectively replacements for branch services.

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CRC applauds the work that the FDIC has done in the last several years to provide much needed data to financial services providers and advocates working hard to make these services better and more accessible. We believe that the time has come for the FDIC to ask more strategic questions to help identify the most effective ways to address the need for basic financial services.

Sincerely,

Andrea Luquetta

Andrea Luquetta
Policy Advocate