

May 4th, 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 our comments on the FDIC's National Survey of Unbanked and Underbanked Households.

Reinvestment Partners is a 501 c 3 organization located in Durham, North Carolina. Our mission is to help under-secured communities to access safe and sound financial products. We realize our goal through a "people and places" strategy that addresses needs through direct services to individuals, to neighborhood community economic development, and through policy advocacy.

In our organization's work, we have spent a great deal of time engaging in policy dialogue surrounding the underbanked. My 2012 paper on prepaid debit cards was an early attempt to frame the sets of characteristics that would do the most to protect the interests of prepaid debit card users. I testified at the CFPB's Field Hearing at the outset of their rule-making process for the prepaid debit card. I publish a blog ("BankTalk") that covers the spectrum of financial services utilized by this population, from payday loans to prepaid cards to refund anticipation loans. Given those concerns, our agency uses the FDIC's Survey frequently. It is possibly the most authoritative source of data within this topic. But the fact that it is so significant means that any potential improvement to its content is vitally significant.

Geography

It has been our experience that data released in the report is far too aggregated for most audiences. Many of the attempts by policy makers to increase access to the banking system take place at the state or county level. The Banking Up project, for example, has generally been taken on by leaders within a specific metropolitan area. At the outset of any of these campaigns, groups attempt to measure the extent of under-served consumers. Unfortunately, information disaggregated beyond a regional level is not available. The same is true for interactions with the media. Reporters generally want to know how prevalent the underbanked phenomenon is within North Carolina or inside their local community.

In our community, we have attempted to find a way to convince our State Treasurer of the extent to which people in our state are underbanked or unbanked. It is our belief that her office could be a leader in moving their employees to bank accounts. However, the FDIC's data only discusses the scope of this population in the Southeast. This is an area that spans from North Carolina to Louisiana. For this group, data on a regional level is one more step removed from being relevant.

If the Survey can sort individuals by their metropolitan status, then it seems plausible that data could be sorted for a set of MSAs. In North Carolina, it would be reasonable to sort for either Charlotte or Raleigh, but probably not necessary to include both areas.

Unit of Analysis

While there are other vantage points, the main framework for reviewing data in the Survey is through statistics about the unbanked and underbanked. Other groups are explored, but to a lesser extent. In our opinion, it is a mistake to lead with those characteristics and then follow behind with more typical demographic descriptors (income, urban/rural, race, age, et al.) We think it would be more useful if more emphasis was given on reporting the scope of banking status by known demographic groupings. Consumers care about financial status based upon their pre-existing understanding of population groups. This is just an opinion, but we expect that most people care less about a person's banking status compared to what they feel about their demographic status; once they relate to individuals through known descriptors such as "female" or "older than 65," then they begin to feel for the experience of being underbanked or unbanked.

Cost of Being Unbanked and Underbanked

The Survey should create a new discussion that discusses how much people are paying to be outside of the banking system. We know that the "poor often pay more," but it is not clear if that is the case here. Nonetheless, it is less clear in which banking context the poor are likely to pay more. Do they pay more when they have checking account? Alternatively, is it the case that they spend more when they must rely upon check cashers and money transmitters? The Survey could settle this question.

At the same time, it is unlikely that the answer would be consistent across all consumer profiles. We know that checking accounts can be affordable for low-wealth individuals if they have a direct deposit. We can see that many prepaid card accounts offer a full-range of transaction services for a fixed-rate. In the end, which systems are most beneficial for which groups?

Prepaid debit cards

Acknowledging that the prepaid debit card is already a top focus of the Survey, I would ask for even more detail. The prepaid card holds the central place in any discussion of the underbanked – it is the product that transitions individuals from unbanked to banked. By combining technology, low-margin operations, and scale, the prepaid card has overcome some of the main hurdles to serving this population.

The value of a paper statement: Industry and advocates are divided on the issue of the value of the paper statement. The Survey is an opportunity to inform this debate and potentially to end it. The Survey should ask people a variety of questions relative to paper statements. They should be polled on their frequency of use, the difference that account type makes in their appreciation of the service, if there are specific times of the year or financial events that trigger a need for a statement (perhaps getting a loan or filing taxes), and the paper statement's value relative to other channels for account information. If an individual does not utilize a paper statement, then how does he or she check their balance? Why do they prefer other modes?

Cost of ATM Access: While some analysis has explored the average monthly cost of a prepaid debit card account, less research has broken down those costs discretely. The industry claims that fee-free ATMs are widely used. But if this is not true, then these cards are actually very expensive.

A *profile of user clusters*: The FDIC could identify certain groups of like-consumers” who share common use characteristics. An ongoing statement in the prepaid card policy dialogue is that there is no single style of user. This stands in contrast to the great majority of traditional checking account profiles. Certainly, cardholders who direct deposit their earnings to a prepaid card and a checking account should have similar habits. However, a great many users of prepaid cards use these products as one-time accounts, as pockets for specific categories within their overall budget, or to provide a purse for a friend or relative.

Thus, a more useful approach would be to cross-tab the existing categories by prepaid debit card user clusters. In the following table, I suggest some possible questions.

		Direct Deposit	Non-DD, > \$1,000 in loads per month	Retail purchase <60 days old, < \$1,000 load
Functions Used	Bill-pay			
	P2P or P2B			
	Check			
	Outbound ACH			
	Paper Statement			
	Sub-Account			
	Remote Deposit			
	Register Reload			
Location	Grocery, et al.			
	Online			
	Restaurant, Gas			
Depth	Duration Active			
	Avg. Spend p/m			
Other Services	Check Casher			
	Payday loans			
	Remittance			
	Checking			
	Credit Card			
	Mortgage			

In the cells, the Survey would publish percentages for each cross-tab. Other possible analyses:

- Liquid financial asset holdings
- Income of account holder
- Monthly Spend
- Lifetime account duration

One example where the Survey has already developed this kind of crosstab is in Table 8.1 (“Main Banking Method by Whether Household Had Internet Access, Mobile Phone Access or Direct Deposit”).

To a lesser extent, research from the Philadelphia Federal Reserve has offered insight to user clusters (online purchase, reload and direct deposit) but without the cross-tabulation. While they cannot tell much about the demographics of their customer bases, payment systems databases would reveal the usage patterns. In spite of that, the concept of different user clusters has been a common talking point from industry. Only a segment of these card accounts are actually used as full-time transactional accounts. In my opinion, the dialogue between advocates and industry would be better if we could work from a common understanding.

Check cashing/Speed of Payments

Over the next two years, the Federal Reserve will convene a Faster Payments Task Force. Almost two hundred professionals will serve on the voting body. Only a handful of those participants come from advocacy groups. This is an excellent example of where the Survey could put advocates on stronger footing with industry.

Faster payments might help to reduce some of the transaction costs for this population. In particular, it seems possible that near real-time payments might eliminate some of the demand for check cashers and payment kiosks. For example, if

a direct deposit cleared immediately, then fewer consumers might use check cashers. A person paid by direct deposit on a Friday may not have access to funds until Monday. If such a person took payment by check and then brought it to their bank, he or she would be able to receive \$200 on the next business day. The rest would only be available on the second business day.

The slow speed could motivate individuals to take payment on a paper check and then bring it to a check casher, even if it meant paying five to ten dollars for the service. In my experience, many low-income workers need money immediately. But that information is relatively difficult to parse from the Survey. We can only see that some unbanked and underbanked consumers are also using check cashers.

How many people choose to receive their wages by check in order to use a check casher, even if they could potentially receive it through direct deposit? What are the typical characteristics of these individuals? How do they differ from other underbanked individuals? Do people who receive money orders fall into the category of unbanked or underbanked? The Survey only says “used at least one.” However, it would be far better if those groups could be dis-aggregated to specific products.

Payroll Cards

Questions that are appropriate for prepaid debit cards are also appropriate for payroll cards. Additionally, there are other worthwhile questions for this product, too. MasterCard and VISA indicate that there is virtually no payroll card penetration in smaller businesses. Apparently many employers believe that the liability risks and administrative burdens of establishing a program are too high. To verify that statement, it would be valuable to look at employer size. As well, it would be helpful if that analysis was sorted for private and public employers.

Conclusion

Ultimately, access to raw data would be the most beneficial change to the Survey. The virtue of the Home Mortgage Disclosure Act is partially in its disaggregation. HMDA data is reported to the public at the loan level. Given that, it can be used to answer many questions. HMDA data has driven a movement of advocacy, in part because it makes for a common understanding between advocates and mortgage lenders.

The Survey makes a valuable contribution. It provides useful data which informs the policy conversation. Even better, the report is written in a clear and understandable format. Thus, improvements are only a matter of making a good project even better. To the extent that it can be enhanced, we believe that disaggregation of data points and cross-tabulation would be extremely helpful

Thanks for your concern to making this important work even more valuable.

Sincerely,

Adam Rust