December 18, 2012

Ms. Leneta Gregorie
Counsel, Legal Division
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
comments@fdic.gov

RE: "National Survey of Unbanked and Underbanked Households" (OMB 3064-0167)

Dear Ms. Gregorie:

The Center for American Progress appreciates the opportunity to comment on the FDIC's Survey of Unbanked and Underbanked Consumers.

This comment is submitted by the Center for American Progress (CAP), a progressive, nonpartisan think tank dedicated to improving the lives of Americans through ideas and action. As part of its activities in developing policies to reduce poverty and ensure a stable middle class, CAP considers public issues that concern the financial well-being of low- and moderate-income households, and promotes a financial system that works for all Americans.

General Comments on the Survey of Unbanked and Underbanked Households

Prior to the Survey of Unbanked and Underbanked Consumers (the Survey), no public data on the unbanked was available on a national scale, and existing data collection efforts lacked the sample size and robustness of the US Census' Current Population Survey. CAP applauds the FDIC's effort to deliver a survey that thoroughly captures the size and scope of the unbanked population, including estimates of the unbanked by state and metropolitan area.

The Request for Comment invites responses on "whether the collection of information is necessary for the proper performance of the FDIC's functions, including whether the information has practical utility." CAP believes that the Survey is relevant to both the FDIC's safety and soundness mandate and its consumer protection role, for two main reasons.

First, the Survey functions as a useful benchmark for consumer demands currently unmet by FDIC-insured banks. Findings from the Survey may facilitate new products intended for unbanked or underbanked consumers. The Survey also enables the FDIC to measure the proliferation of alternative financial services such as high-cost, short-term "payday" loans that may be detrimental to consumers' financial well-being. To the extent that these products are issued by FDIC-insured banks or their affiliates, these findings provide new avenues for future regulation and enforcement.

Second, the Survey enables the FDIC to measure the growth of emerging transaction products for the unbanked and underbanked that may require new forms of deposit insurance. One example is the prevalence of prepaid cards issued by nonbank entities that maintain FDIC pass-through insurance to protect consumers' "loads," or deposits. Not all prepaid cards are insured in this way. It has been suggested that prepaid cards issued by non-depository entities effectively act as uninsured bank operations.[1] While CAP has not taken a position on this issue, better understanding unbanked consumer behavior may help the FDIC consider changes to the deposit insurance system as well.

Because the Survey's sample size of 50,000 enables results to be made public at the state and metropolitan area levels, it also identifies areas of greatest need for state and local policy interventions to address the unbanked, such as BankOn initiatives. BankOn programs, which have been launched in dozens of cities, are community partnerships that promote opening safe bank accounts among unbanked and underserved populations.[2]

We appreciate the significant effort that the FDIC has undertaken in developing a comprehensive national survey. At the same time, given the rapid evolution of both bank account and prepaid card products, we believe that this survey must also evolve to reflect a changing financial marketplace.

As noted in a column published in American Banker on November 30, 2012, CAP questions one of the 2011 Survey's key findings: that the number of unbanked has increased from 2009. The growth in prepaid card usage among the unbanked and especially formerly banked suggests that account-like prepaid debit cards are substituting for traditional bank accounts.[3] In short, our analysis suggests that the number of unbanked consumers is nearly constant if prepaid card use is considered equivalent to holding a bank account.[4]

Given that the FDIC's own Safe Accounts pilot is card-based, and banks have increasingly offered checkless checking as an alternative to traditional checking accounts, the distinction between cards and accounts is rapidly declining. The FDIC's 2013 survey should address this narrowing distinction by examining prepaid card usage more closely.

Recommendations for the 2013 Survey

Better understanding prepaid consumers' habits and their "banked" status will not only help the FDIC achieve its financial inclusion objectives, but also provide stronger background data for future rulemaking efforts in this area. Specifically, we recommend the following two improvements to the 2013 survey and report:

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[1] For one possible interpretation, see Andrew Kahr, "Don't Expand Uninsured Banking—End It." *American Banker*, October 30, 2012. Available at: http://www.americanbanker.com/bankthink/dont-expand-uninsured-banking-end-it-1053950-1.html

[2] According to JoinBankOn.org, an online clearinghouse for BankOn initiatives, "Bank On programs negotiate with banks and credit unions in local communities to reduce barriers to banking and increase access to the financial mainstream. Typically led by local government or state public officials, Bank On programs are voluntary, public/private partnerships between local or state government, financial institutions, and community-based organizations that provide low-income un- and underbanked people with free or low-cost starter or "second chance" bank accounts and access to financial education." Available at: http://joinbankon.org/about/

[3] Gadi Dechter and Joe Valenti. "It's Time to Regulate Prepaid Cards as Bank Accounts." *American Banker*, November 29, 2012. Available at: http://www.americanbanker.com/bankthink/its-time-to-regulate-prepaid-cards-as-bank-accounts-1054698-1.html

[4] The FDIC reported that the percentage of unbanked households increased from 7.6% in 2009 to 8.2% in 2011, with the number of unbanked households increasing from approximately 9.1 million to 9.9 million. Prepaid card use increased from 12.2% to 17.8% among the unbanked, or from about 1.1 million households to 1.8 million. Subtracting prepaid card users from the unbanked population, the increase in unbanked households is minor, from slightly under 8 million to 8.1 million, and after taking into account growth in the number of US households, the unbanked rate remains stable at about 6.7% of all households.

First, the FDIC should add additional questions on the relationship between un- and underbanked households and their use of prepaid cards. Given that prepaid cards are frequently marketed as "bank account alternatives" and their features are considered to be most attractive to lower-income, less financially sophisticated consumers, it would be useful to measure the degree to which prepaid cards are serving as a substitute to bank accounts. These questions should include:

1. **Consumer preferences and decision-making among bank account and prepaid card features.** In particular, questions should facilitate comparisons about the attractiveness of prepaid and bank account features to test hypotheses such as "I no longer have a bank account because bank fees are unpredictable, but I like that I am unable to overdraft on my prepaid card."

2. **Consumer usage of prepaid cards compared to bank accounts.** One study of activity on three million prepaid cards by the Federal Reserve Bank of Philadelphia and the Center for Financial Services Innovation found that many prepaid cards are quickly spent down and discarded, typically within six months.[5] However, the use of direct deposit, while making bank accounts more attractive, may also increase prepaid cards' longevity. A related question is the degree to which prepaid cards are used to store and access cash rather than to participate in electronic transactions (such as debit card purchases). Understanding these distinctions helps illustrate households' "banked" status.

3. **Awareness of, and sensitivity to, rates and terms across bank account and prepaid products.** If possible, information on the rates and terms of prepaid cards would also be valuable. For example, does the card have a monthly fee? Does it cost money to add value to the card? For these questions, the consumer's knowledge of card features may be equally salient as the features themselves. Consumer knowledge about the fees and features of their prepaid cards, relative to their knowledge of bank accounts' fees and features, may reflect a preference for easy-to-understand products.

Second, the FDIC should project an alternative measure of the percent of unbanked that incorporates regular use of prepaid cards. As we suggested in *American Banker*, consumers who report that they do not have a checking account, but have used a prepaid or payroll card within the past year, should be considered "banked." This would enable a more meaningful comparison of the overall unbanked population across time based on the substitution of prepaid cards for checking accounts. However, if the FDIC does not wish to alter the established definition of "unbanked," it should at least incorporate this revised methodology into a new alternative measure. (One way to consider this measure is that households without an account or any prepaid cards could be labeled "cash-only" transactors.)

Conclusion

Thank you again for the opportunity to comment on this notice. If you have any questions or would like to discuss anything in this letter in more detail, please contact Joe Valenti, Director of Asset Building, Center for American Progress, at 202-478-5316 or jvalenti@americanprogress.org.

Sincerely,

Center for American Progress

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[5] Stephanie M. Wilshusen et al. "Consumers' Use of Prepaid Cards: A Transaction-Based Analysis." Discussion Paper, Payment Cards Center, Federal Reserve Bank of Philadelphia. August 2012. Available at: http://www.philadelphiafed.org/consumer-credit-and-payments/payment-cards-center/publications/discussion-papers/2012/D-2012-August-Prepaid.pdf