Minutes

of

The Meeting of the FDIC Advisory Committee on Economic Inclusion

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

June 2, 2011 - 8:48 A.M.

The meeting of the FDIC Advisory Committee on Economic Inclusion ("ComE-IN" or "Committee") was called to order by Sheila C. Bair, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation ("Corporation" or "FDIC").

The members of ComE-IN present at the meeting were Michael S. Barr, Professor of Law, University of Michigan Law School; Ted Beck, President and Chief Executive Officer (CEO), National Endowment for Financial Education; Kelvin Boston, Executive Producer and Host of PBS' *Moneywise with Kelvin Boston*; Martin Eakes, CEO, Self-Help/Center for Responsible Lending, Durham, North Carolina; Rev. Dr. Floyd H. Flake, Senior Pastor, Greater Allen AME Cathedral of New York; Ester R. Fuchs, Professor, School of International and Public Affairs, Columbia University; Wade Henderson, President and CEO, Leadership Conference on Civil Rights, and Counselor to the Leadership Conference on Civil Rights Education Fund; Alden J. McDonald, Jr., President and CEO, Liberty Bank and Trust, New Orleans, Louisiana; Bruce D. Murphy, Executive Vice President and President, Community Development Banking, KeyBank National Association; Manuel Orozco, Senior Associate at the Inter-American Dialogue, and Senior Researcher, Institute for the Study of International Migration, Georgetown University; Rebecca W. Rimel, President and CEO, The Pew Charitable Trusts; John W. Ryan, Executive Vice President, Conference of State Bank Supervisors; J. Michael Shepherd, President and CEO, Bank of the West and BancWest Corporation; Robert K. Steel, Deputy Mayor for Economic Development, The City of New York; Peter Tufano, Sylvan C. Coleman Professor of Financial Management, Harvard Business School, and Senior

Associate Dean for Planning and University Affairs; and Deborah C. Wright, Chairman and CEO, Carver Bancorp Inc., New York, New York. Diana L. Taylor, Committee Chairman and Managing Director, Wolfensohn & Company, L.L.C., New York, New York; and Lawrence K. Fish, Former Chairman and CEO, Citizens Financial Group, Inc. were absent from the meeting.

Members of the Corporation's Board of Directors present at the meeting were Sheila C. Bair, Chairman, Martin J. Gruenberg, Vice Chairman, Thomas J. Curry, Director (Appointive), and John E. Bowman, Acting Director, Office of Thrift Supervision. Roberta K. McInerney, Designated Federal Officer for the Committee and Deputy General Counsel, Corporate, Consumer, Insurance, and Legislation Branch, FDIC Legal Division, also was present at the meeting. Corporation staff who attended the meeting included Willa M. Allen, Gwendolyn F. Alston, Ruth R. Amberg, Julie V. Banfield, David Barr, Michael J. Barry, Luke H. Brown, Richard A. Brown, Susan Burhouse, Karyen Chu, Glenn E. Cobb, Kelly E. Costello, Christine M. Davis, Patricia B. Devoti, Doreen R. Eberley, Keith S. Ernst, Alice C. Goodman, Janet R. Gordon, Greg Hernandez, Sally J. Kearney, Kenyon T. Kilber, Cheh Kim, Ellen W. Lazar, Alan W. Levy, Jonathan N. Miller, Barry A. Mills, Tariq A. Mirza, Robert W. Mooney, Nydia L. Moore, Christopher J. Newbury, Thomas E. Nixon, Janet V. Norcom, Erika Noyes, Yazmin Osaki, Victoria Pawelski, Mark E. Pearce, Sylvia H. Plunkett, Carolyn D. Rebmann, Luke W. Reynolds, Sherrie Rhine, Jay Rosenstein, Barbara A. Ryan, and Annette M. Somerville.

Charlotte M. Bahin, Senior Counsel for Special Projects, Office of Thrift Supervision, also was present at the meeting.

Chairman Bair opened and presided at the meeting. She began by advising that this would be her last meeting with the Committee, expressing sorrow that her tenure as Chairman of the FDIC was nearing its end and offering praise for the joint accomplishments of Board members, staff and Committee members over the previous five years. She then provided an overview of the meeting agenda, noting that she was excited at the opportunity to hear presentations by recipients of the Chairman's Award for Excellence in Serving Low- and Moderate-Income ("LMI") Consumers, who had been honored at a dinner the previous evening, and that the meeting also would include presentations on the current status of LMI household finances and discussion on the future of economic inclusion initiatives, particularly technology-based efforts. Providing context for the latter topic, Chairman Bair indicated that many households were adversely impacted by the recent recession and that understanding how LMI households are faring today would assist in determining the most appropriate course of action going forward. She then

turned the discussion over to Ms. Lazar, moderator of the first panel.

Ms. Lazar began by advising, among other things, that the panel would focus on the status of LMI household finances, with panel members addressing how important drivers of the overall economy are affecting the economic conditions facing American families and how the economic environment has created financial challenges for LMI families and the financial institutions that serve them. She indicated that the last recession, which began in December 2007 and officially ended in June 2009, was the longest and deepest in the country's post-war history; that the recession led to depleted assets, damaged credit scores, decreased geographic mobility, and lack of financial security for many U.S. households; that the decline in family income and net worth pushed the poverty rate to a 15-year high; and that, although poverty rates rose for families across all racial and ethnic groups, historic disparities continued for African-Americans, Hispanics and, to a lesser extent, Asians relative to non-Hispanic Whites. After reiterating that the purpose of the panel was to help inform the Committee about the circumstances and conditions of LMI households and obtain Committee feedback on the topic, she introduced panel members Richard Brown, Chief Economist, FDIC, and Keith Ernst, Associate Director, Consumer Research, Division of Depositor and Consumer Protection, FDIC.

Mr. Brown, presenting information on the jobs crisis in the U.S., advised that for every decade from the 1960s through the 1990s, 17 million to 20 million jobs were created and that, in contrast, for the past 11 years, ending in 1999, net job creation has been approximately 500,000 jobs. Elaborating, he further advised that the private sector has shed 1.1 million jobs since 1999, with a gain in government jobs primarily responsible for keeping net job creation in positive territory; that jobs have been lost to globalization, technology, and recessionary pressures; that there has been a shift in private sector jobs, with declines in higher-paying sectors such as manufacturing and construction accompanied by an increase in relatively low-paying sectors such as education and health and leisure and hospitality; and that the decline of 5.6 million manufacturing jobs represents one-third of the manufacturing jobs in existence at the end of 1999.

Next addressing the issue of income inequality, Mr. Brown reported that, in 2006, households in the lowest quintile earned 3.4 percent of total income in the U.S., down from 4.3 percent in 1975; that households in the highest quintile earned just over 50 percent of total income; and that, when compared with other industrialized countries and expressed in terms of the Gini

coefficient, an income inequality metric, the U.S., with a Gini coefficient of 45, shows greater income inequality than the European Union, which has a Gini coefficient of 30.5, the United Kingdom, which has a Gini coefficient of 34, Japan, which has a Gini coefficient of 38, and China, which has a Gini coefficient of 42.

Mr. Brown then discussed the impact of the most recent recession on U.S. workers and households, noting that the U.S. economy lost 8.75 million jobs in the recession, with only 20 percent of those jobs recovered thus far; that 7.8 million people have been out of work for 15 weeks or more, three-quarters of which have been out of work for 27 weeks or more; and that this long-term joblessness is unprecedented in the nation's history. Regarding the social consequences of such long-term dislocations, he advised that a growing body of research indicates that displaced workers suffer large declines in earnings that persist for more than a decade after the jobless event; that the rates of mortality for displaced workers are persistently higher for years after the jobless event; that the educational achievement of the children of displaced workers suffers in a statistically meaningful way after the jobless event; and that the earnings of those children years later is also lower. He also advised that other life cycle progressions have been affected, with a dramatic slowdown in the formation of new households and lower demand in real estate markets; a decline in household mobility from 6.1 percent in 2008 to 4.2 percent in 2009, with approximately 25 percent of homeowners owing more on their homes than they are worth; a skills mismatch in labor markets, with a demand for high-skilled labor in markets where high-skilled labor is not available; retirement insecurity and delays arising from declines in home prices, rising indebtedness, declines in stock portfolios, and an overall drop of 26 percent in the net worth of U.S. households.

Next, Mr. Ernst elaborated on the overall change in assets held by U.S. households, noting that the 26 percent drop in household wealth was fairly equally distributed across income categories, with a median decrease of 18 percent, identical to the decrease for the lowest income quintile; and that the median net worth of the lowest and the second lowest quartiles dropped from $1,700 to $1,000 and from $63,000 to $48,000, respectively. He then turned to the components of net worth, assets and expenditures and liabilities, reporting with respect to assets that from 2007 to 2009, the median value of financial holdings dropped 5 percent, but the median value of non-financial holdings, those most likely to be held by LMI families, dropped 14 percent. He explained that 27 percent of low-income homeowners report that their home is worth less today than at the

time of purchase, a phenomenon due in part to substantially higher foreclosure rates in LMI census tracts; that lower-priced homes have seen the largest average price declines since 2006, with an almost 50 percent price drop in contrast to a 29 percent drop for the highest-priced homes; that the value of automobiles, the most common asset held by LMI households, are down approximately 30 percent, with the median car value in the lowest income quintile dropping to $4,000; that 25 percent of low-income households have completely stopped making retirement contributions, versus just 16 percent for the general population; that 14 percent of lower-income households took early withdrawal of funds from their retirement accounts; and that, as of 2010, 36 percent of women and 34 percent of men in the $20,000-$40,000 income range had a loan against their 401k account, as compared to 28 percent of all Americans. With respect to expenditures and liabilities, Mr. Ernst advised that the lowest income quintile saw a 36 percent increase in installment debt, versus a drop in installment debt for every other income quintile; that the first and second lowest quintiles saw an increase in credit card debt, even though aggregate credit card debt had decreased; and that those with the lowest incomes have greater exposure to more volatile expenses, with food and healthcare accounting for 27 percent of household budgets for the lowest income quintile, as compared to 19 percent of household budgets for the highest income quintile. Noting that LMI families make substantial use of alternative financial service ("AFS") providers because of their economic challenges, he advised that it is estimated that such providers process $330 billion on an annual basis across a diverse array of offerings. Further noting that FDIC research has shown that one in four consumers are unbanked or underbanked and 20 percent of lower-income consumers are unbanked, he stated that the financial needs of LMI consumers include transactions and savings.

Summarizing the panel presentations to help frame the Committee's discussion, Mr. Ernst stated that the dual challenges of long-term job loss and the housing crisis have taken a serious toll on LMI households; that, like other groups, lower-income households have lost wealth, but that the setbacks may be more serious for families already facing significant challenges; and that LMI households have financial services needs and are finding ways to meet them, in many cases through relatively expensive AFS providers.

The discussion that followed covered a number of topics, including credit constriction, particularly as it relates to mortgage loans and small businesses; consolidation at the upper end of the banking system and the future of community banking; and the foreclosure crisis and the future of homeownership.

Regarding credit constriction, Chairman Bair suggested that imposing higher capital standards on insured depository institutions is good for long-term economic interests and is not the cause of constriction in lending, that loan constriction is the result of weak loan demand and undue risk aversion, that a pullback in capital standards would have a devastating effect on the economy, and, to the extent that lower real estate values inhibit small business lending, perhaps financial institutions should give thought to prudent unsecured lending. Mr. Brown, in agreement, stated that many creditworthy small businesses are not expanding because of decreased orders, an uncertain economic outlook, and lack of investor confidence; that many small businesses that would typically use real estate as collateral for a loan have reduced creditworthiness due to dislocations in the real estate market; and that a strongly-capitalized banking system is a fundamental prerequisite for an expansion of lending. Mr. McDonald suggested that regulatory costs have impacted the ability of small community banks to extend both housing- and small business-related credit, that recent policy decisions on interchange and overdraft fees have caused a lot of community banks to reexamine their business models, and that the imposition of stringent underwriting standards interferes with the ability of community bankers to factor into loan decisions their knowledge of the communities they serve. Finally, Mr. Murphy indicated that the consequence of the constructive tension between encouragement to make loans and the need to focus on safety and soundness is more cautious and less risky lending on the part of institutions.

With respect to consolidation at the upper end of the banking system and the future of community banking, Mr. Eakes, citing statistics on the percentage of banking assets held by small community banks relative to total banking assets and current projections that 3,500 community banks will disappear over the next nine years, suggested that a decline in the number of community banks would further adversely impact small business lending. Mr. Brown, acknowledging that a strong community banking sector is essential to the entrepreneurial character of the nation's economy, underscored the FDIC's support for the community banking sector and pointed out that forecasts regarding a decline in the number of community banks are based on current definitions of what constitutes a community bank, which is subject to change over time. Vice Chairman Gruenberg noted that there are significantly fewer community banks than existed 20 years ago and that there is increasing concentration of assets at the upper end of the banking system, and commented that the two trends are not necessarily linked and indicated that, despite continuing challenges, community banks continue to occupy an important niche in the financial system and there are still a

substantial number of community banks that have emerged from the recent crisis in sound condition. Mr. Brown, underscoring the cyclical nature of banking, advised that, historically, there have been periods of mergers that drive consolidation, but there also tend to be periods that drive new chartering activity. Chairman Bair acknowledged that community banks, which represent only one percent of banking assets, are responsible for 40 percent of small business loans, and suggested that such banks are wonderful laboratories for innovation and that regulators should ensure that they continue to have the flexibility to experiment with and prove the creditworthiness of products targeting the LMI community.

Regarding the foreclosure crisis and the future of homeownership, Mr. Henderson pointed to the severity of the most recent recession and the impact of the foreclosure crisis, particularly in LMI communities, and suggested that the government needs to take action beyond the Home Affordable Modification Program, which has so far proved insufficient to stem the foreclosure problem. Messrs. Henderson and Eakes suggested that proposals to raise the margin of down payment necessary to purchase a home would have an adverse impact on access to homeownership for LMI consumers, and Mr. McDonald indicated that, had a 10 percent minimum down payment been required, approximately 95 percent of the mortgage loans issued by his bank over the past decade would not have been made. Mr. Brown suggested that, although homeownership has always been the American dream, prohibitive transaction costs that inhibit labor market transition, recent credit distress, and high foreclosure rates have called into question the value of homeownership for the next generation; and Mr. Ernst suggested that it is difficult to disentangle the economic benefit of homeownership from the public policies that support homeownership, but that research shows there continues to be value in homeownership. Reverend Flake, observing the destabilizing effects of lost jobs and home foreclosures on many LMI communities, recommended taking a look at what the banking industry can do to sustain those communities.

Chairman Bair then announced that the meeting would briefly recess. Accordingly, at 10:19 a.m., the meeting stood in recess.

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The meeting reconvened at 10:32 a.m. that same day, at which time Professor Barr, moderator of the panel discussion on "The Way Forward: The Future of Economic Inclusion Efforts - Technology and Innovation," framed the discussion by suggesting that when seeking to foster greater economic inclusion, it is

essential to keep in mind the importance of educated consumers, providing better access to products and services that meet the needs of consumers, and effective consumer protection. He then touched upon behavioral economics, noting that the traditional rational actor model often used in policymaking sometimes misses the basic gap between providing information to individuals and providing it in a way that actually helps them understand the information they are being given; misses the gap between intention and behavior; underestimates predictable biases that cause us to misperceive reality, misforecast our own behavior, engage in myopia, experience decisional conflict, engage in faulty mental accounting, and experience attention constraints; and fails to take into account the fact that we encounter the world through a set of particular contexts or institutions that guide and shape our behavior for better or worse, such as defaults that cause us to accept the way things are done most of the time, which can change the way we behave as well as the way we think about and plan for the future.

Professor Barr next discussed a proposed set of education core competencies in finance, released by the U.S. Treasury Department ("Treasury") in 2010, which includes as core concepts, earnings, spending, saving, borrowing, and protection; identifies the knowledge levels for each concept; and sets forth related actions or behaviors that lead to the knowledge levels. He then moved to the question of access, raising the issue of how technology can be harnessed to improve the products and services available to LMI individuals and advising that, when asked what they want out of financial products and services, LMI consumers have indicated the important attributes they want in a payment card that can be used for transactional services, that consumer responses for different groups can be weighted, and that the relative weights can then be used to construct a payment card that is low-cost and low-risk to the bank and also the particular population.

Professor Barr also provided information on recent government initiatives, including the Direct Express Card provided to Social Security and other benefit recipients; a small Treasury pilot designed to use technology and a default starting position for savings accounts for receipt of tax refunds; the FDIC's pilot on safe and affordable transactional and savings accounts; and the Bank on USA program, designed to provide support around the country for programs to offer safe, low-cost accounts to unbanked and underbanked individuals. Finally, with respect to consumer protection, he underscored the importance of regulation that is least costly and least intrusive, yet is also protective of consumers, noting that in areas where the interests of providers are well-aligned with those of consumers, such as in

the area of savings, regulation can be relatively light and less intrusive, whereas in areas where providers interests are not aligned with consumer interests, such as in the area of borrowing, regulation may need to be more high touch and intrusive.

Professor Barr then introduced panel members, George Peabody, Director, Emerging Technology Advisory Service, Mercator Advisory Group; Michael Tarazi, Senior Policy Specialist, Consultative Group to Assist the Poor ("CGAP"), The World Bank Group; Brandee McHale, Chief Operating Officer, Citi Foundation ("Citi"); Jennifer Tescher, President and CEO, Center for Financial Services Innovation ("CFSI"); and Jonathan Mintz, Co-Chair, Cities for Financial Empowerment, and Commissioner, New York City Department of Consumer Affairs.

Mr. Peabody, discussing the economy's impact on financial services and how those services will affect consumers going forward, advised that, although the payments industry has been fairly stable for more than 30 years since the transition from paper to plastic, the impact of technology and the introduction of new players into the industry are likely to result in a high rate of change over the next five to 10 years; that the payment industry's planning and profit was previously predicated on a culture of spending, which has ended; that because of stress on the banking industry, there is a return to fees as a means of generating profit; that other organizations such as PayPal and Wal-Mart are now competing with financial institutions to provide financial services to consumers; and that technological innovation and regulation will significantly shape the payments industry of the future. On the topic of technological innovation, he discussed the transformational power of mobile technology, indicating that smartphone technology blurs the distinction between online and offline worlds and has changed the way both banks and merchants relate to consumers; that banks are expanding their online banking capacities through mobile banking and exploring new services such as person-to-person payments, with Bank of America, JP Morgan Chase, and Wells Fargo having recently announced the formation of an entity, Clear Exchange, to facilitate person-to-person payments among their account holders; and that merchants are now using mobile payments to engage in one-to-one marketing, product merchandising, and the offering of incentives and loyalty and rewards programs.

Next, Mr. Peabody addressed the extent to which LMI consumers have access to smartphone technology, noting that nearly 60 percent of Americans will have smartphones by year-end 2011; that smartphones, with internet access, videos, and other services, and a projected purchase price of under $200 within a

few years, are an economically rational choice for consumers; and that the cost would make it relatively easy for a consumer to purchase a smartphone, along with prepaid or pay-as-you-go communications services, and have a means of participating in various aspects of mobile commerce. He then discussed prepaid regulatory and compliance concerns, including the impact on debit costs and fees of the Durbin amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; state and federal regulation of the prepaid industry; merchant-driven activity in financial services and mobile commerce; the roll-out of new payment and transaction technologies; and the crisis in data security, expressing hope that new tools will help to alleviate data security problems.

Mr. Tarazi began his presentation by explaining that CGAP is a trust housed in The World Bank that focuses on financial inclusion around the world, with a priority in developing countries, particularly those with high unbanked populations. He then identified obstacles to financial inclusion, including long distances and low-population density, with bank branches often unavailable in areas where many low-income populations are concentrated; high bank costs relative to income; low education and financial literacy; and poor product and channel design, with LMI consumers expressing greater preference for savings, payments, and insurance services than for credit services; and suggested that branchless banking, which he defined as the delivery of financial services outside of bank branches using technology and non-bank retail agents, provides a means to overcome those constraints and offers tremendous potential to promote financial inclusion.

Continuing, Mr. Tarazi explained the mechanics of branchless banking for those who want to deposit cash into their accounts and those who want to take cash out of their accounts, noting that, in the first scenario, both the consumer and an independent retail agent open bank accounts, accessible through their mobile phones, the consumer provides cash to the agent, who then transmits the electronic value from his account via mobile phone in real time to the consumer's account; and that, in the second scenario, a consumer requesting cash from the agent electronically transmits the amount requested from his account to the agent's account, who upon receipt of confirmation that the funds have been credited to his account, dispenses the cash to the consumer. He advised that the logic of branchless banking is the ability to use existing retail infrastructure and existing deployed technology; that the power of existing infrastructure is apparent, particularly if you consider that worldwide there are approximately 250,000 Western Union offices, 500,000 bank branches, 665,000 post offices, 1 million ATMs, 28 million point-

of-sale ("POS") terminals, and 5.7 billion mobile phone connections; that there has been a significant increase in the number of mobile phone owners in the developing world, as opposed to in developed countries; that the percentage of those with mobile phones is about double that of those with bank accounts; and that the target audience for branchless banking would be those with mobile phones who do not have bank accounts. Providing insight on the cost of branchless banking, Mr. Tarazi stated that the upfront investment for a traditional bank branch is $250,000, versus $50,000 for a branch in an existing store, $10,000 for an ATM, $2,000 for an agent with a POS terminal, $400 for an agent with a mobile phone, and zero upfront investment for person-to-person payments. Regarding the global status of branchless banking, he advised that there are currently 114 branchless banking implementations, 22 of which have more than one million registered users, with Kenya's Safaricom M-Pesa being the most well-known implementation, with 13.1 million users in just four years; and that branchless banking implementations have a demonstrated capacity to reach the unbanked as evidenced by the fact that approximately 37 percent of customers using mobile and branchless banking were previously unbanked.

In closing, Mr. Tarazi noted that in the most successful branchless banking models, mobile network operators, rather than banks, are the issuer of electronic funds; that such models tend to be more successful because mobile network operators have the experience in high-volume, low-value transactions, which are exactly the kind of transactions in which low-income consumers engage; that the challenge of a model in which a mobile network operator, not a bank, has the contractual relationship with the customer has been met by requiring that funds be held in a pooled account at a prudentially-regulated financial institution; but that regulatory issues regarding branchless banking models still remain. He indicated that included among the regulatory issues are whether low-income users can meet identification requirements associated with laws addressing money-laundering and terrorist-financing concerns; how best to regulate agents; consumer protection concerns involving price transparency, recourse, and education; and whether accounts will be allowed to bear interest and benefit from deposit insurance, noting with respect to deposit insurance that there is a great deal of reliance on the FDIC's 2008 General Counsel Opinion No. 8, "Stored Value Cards and Other Nontraditional Access Mechanisms."

Ms. McHale then discussed a supply-demand linked approach to the future of financial inclusion, first introducing a financial inclusion formula that factors in an appropriate balance of supply, with a focus on improving the supply of financial products; access, which can be increased through innovations in

technology; and demand, with a focus on building trust and influencing consumer behavior through incentives and financial education. She suggested that more emphasis on the demand piece of the equation could produce better results and advised that, in an effort to gain better insight into issues of supply and demand, that Citi, in partnership with CFSI and New York University researchers, had recently launched a three-year project, the Financial Access Initiative, to track the financial behavior of LMI consumers.

Elaborating on the initiative, Ms. McHale reported that it will replicate an earlier study, utilizing the financial diaries methodology, of households in Bangladesh, India, and South Africa, as described in a book entitled, *Portfolios of the Poor: How the World's Poor Live on $2 a Day*; that the initiative will include an urban cohort of African-American families in New York City, an urban cohort of Hispanic immigrant families in San Jose, California, a rural cohort of White and African-American families in Mississippi, and a suburban cohort of families of mixed race and ethnicity in Ohio and Kentucky; that a total of 300 families would be tracked; and that the initiative would involve bi-weekly site visits by a researcher, who would review the diaries, check the methodology, and interview the families to add more substance to the stories. Noting that one of the conclusions of the earlier study was that credit and savings are both viewed as cash-flow management tools and that they are interchangeable, she added that the U.S. initiative would examine cash flow, use of various financial instruments, and the influence of social networks. She ended her presentation by identifying the goals of the initiative, including a determination of whether there may be some standard approaches to financial inclusion that would fit the financial needs and preferences of many subgroups; whether opportunities exist to integrate the delivery of financial services into public and private delivery channels; whether there is a need for new private sector products; whether consumers feel they have a real relationship with community-based intermediaries or whether it is more commodity-based; determining the influence of financial education; and understanding, creating, and influencing norms.

Ms. Tescher, noting that CFSI works to improve the lives of underserved consumers by attempting to increase access to high-quality financial products and services, advised that the recent financial crisis emphasized not only the importance of having access to safe, affordable, high-quality products and services, but also the importance of making certain those products and services are used effectively; that, although there is no shortage of financial education curricula, most research on the effectiveness of such programs focuses on knowledge gain as

opposed to behavioral changes; and that there appears to be a shift from financial education to a financial capability framework, with an increase in new online financial management tools, educational gaming, social media support, and more direct links between consumers and financial products and services. She further advised that the most promising financial capability framework initiatives seem to have four elements in common - they are relevant, timely, actionable, and ongoing; and that CFSI, in an effort to increase the number of initiatives that marry products with information, created the Financial Capability Innovation Fund, which solicited proposals for projects that leverage technology to improve the customer experience, build on behavioral economics principles, or leverage cross-sector partnerships to enhance the provider's efficiency.

Describing the winning proposals, Ms. Tescher indicated that they included the Mission Asset Fund, which has been experimenting with peer lending circles that incorporate an education component and a credit reporting capability that allows borrowers to build their credit history and access mainstream credit providers; the Filene Research Institute, which will be working with credit unions across the country to test whether upfront information about obtaining a lower interest rate over time for on-time payments actually results in more on-time payments for subprime borrowers taking out auto loans, and the importance of providing certain information at the time the loan is made and during the course of the repayment process; Piggy Mojo, a startup company that makes tangible the impulse to save by allowing users, in lieu of succumbing to the temptation to make a purchase, to instead have the amount of the purchase transferred from their checking to their savings account and to send a text message to their savings goal partners challenging them to make a similar effort; the Consumer Credit Counseling Service of Delaware Valley, which works with consumers to implement debt-management plans and utilizes social pressure as an incentive by sending text message alerts to family members or friends when payments are missed; and Co-Opportunity, a Connecticut organization which operates a coaching program, using volunteer coaches to work with consumers who need help with budgeting, with plans to test the addition of a technology component to determine the effectiveness of in-person versus online coaching. In conclusion, she recommended that more use be made of competitions to seed innovative approaches to financial capability, observing that the FDIC has been at the forefront of fostering such innovation; that tools and funding be provided to replicate on a larger scale the approaches that work best; and that government act as bully pulpit to motivate fresh thinking and action.

Mr. Mintz then briefed the Committee on economic inclusion efforts in New York City, advising that local experimentation in New York has been augmented by a partnership with the Cities for Financial Empowerment, a coalition of cities that also foster economic inclusion efforts; that, for cities, economic inclusion efforts are not just about success and quality, but also, of necessity, about scale; and that financial empowerment efforts encompass access to mainstream banking, asset-building, financial counseling and education, and targeted consumer protection. Focusing his presentation on innovation in approach, he offered his opinion that the country is in the middle of a perfect storm, with ever-increasing need for government services, ever-decreasing resources to meet that need, and evidence of great successes in the asset-building field that have been carefully cultivated and studied over the past few years. Noting that asset-building has, until now, existed as stand-alone, fringe efforts, rather than traditional, federally-funded and mandated activities, he suggested that asset building be integrated into mainstream programmatic social service and anti-poverty efforts in our communities to augment and enhance service delivery.

Providing examples of the ways in which New York City has been experimenting with the augmentation of social service delivery, Mr. Mintz advised that the city has inserted a bank account into the sign-up process for conditional cash transfer benefits, which gives banks and credit unions the opportunity to establish relationships with clients who will be receiving regular streams of money for a couple of years and gives consumers a mechanism to safely receive their funds, resulting in a decrease from 56 percent to 6 percent in the percentage of that population that is unbanked; has worked, through its SaveNYC program, to boost the benefits of the Earned Income Tax Credit Program by leveraging a split refund, with a portion of the refund going into a branded savings product, and using privately raised funds to incentivize saving for one year; and, thanks to private funding investments, is offering one-on-one financial counseling at the city's Financial Empowerment Centers, with counselors actually dealing with creditors to negotiate and restructure debt. He stated that New York City is also experimenting with integrating financial counseling into other vehicles, including mortgage foreclosure services, homeless prevention and reentry services, and domestic violence services. Mr. Mintz ended his presentation by suggesting that governments have to identify the points where augmentation of services is appropriate and must force the integration of financial products and counseling sessions into social service delivery and that now is the time to do it.

Chairman Bair, commenting on the panel presentations, indicated that the branchless banking models appears to be very promising and that she was struck by the fact that each of the panelists flagged Bank Secrecy Act ("BSA") issues as an impediment to many economic inclusion efforts and continues to be frustrated that BSA's major barriers are at cross-purposes with very small accounts. Mr. Tarazi mentioned the significant activity of the Financial Action Task Force, on which the U.S. is a major player, and recommended that there should be some coordination on BSA issues at the national level, in response to which Chairman Bair indicated that the recommendation was a good one. Messrs. Orozco and Henderson and Professor Fuchs each expressed some degree of concern regarding the importance of making a distinction between payment instruments and asset-building instruments, with Mr. Orozco indicating that mobile payments could result in the wasting of assets. Mr. Orozco also suggested that, although he is a proponent of technology, many agents have liquidity issues and the risks of overexposure should be kept in mind. Mr. McDonald suggested that many of the participants in providing new financial products and services are not subject to the same regulatory requirements as financial institutions and that it is very important to take into account the regulations that community banks must contend with in order to compete with non-bank participants. Chairman Bair agreed that there is more flexibility for non-bank providers and that she was of the opinion that the Consumer Financial Protection Bureau could play a role in ensuring a level playing field. Professor Fuchs took issue with the notion of shifting from financial education to financial capability, indicating that, in her opinion, there is no distinction and that, if financial education is not done correctly, there is no financial capability; and issued a reminder that the Committee's focus is on quality financial services for LMI consumers.

Chairman Bair then announced that the meeting would recess for lunch. Accordingly, at 12:16 p.m., the meeting stood in recess.

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The meeting reconvened at 1:46 p.m. that same day, whereupon Luke Brown began by noting that the previous evening, a reception had been held in honor of the recipients of the Chairman's Awards for Excellence in Serving the Needs of LMI Consumers, providing an overview of the awards process and criteria, and expressing thanks to Michael Barry, Susan Burhouse, Irma Matias, Barry Mills, Claudia Moore, Yazmin Osaki, and Victoria Pawelski, members of the FDIC team involved in the effort. He then identified the recipients of the Award for Excellence in

Transactional Accounts for LMI Consumers as Cathy Lowery, Danyelle Morris, Jane Woods, Marina Simpson, and Donna Gilman at United Bank in Atmore, Alabama; the recipients of the Award for Excellence in Affordable Credit for LMI Consumers as Robert Young, Joe Flynn, LaReta Lowther, Lisa Werner, and Jayme Payton at WesBanco Bank, Wheeling, West Virginia; and the Award for Excellence in Other Programs or Products that Creatively and Effectively Reach Out to LMI Consumers as M. Licha Ibarra and Leonor Padilla at Brotherhood Bank & Trust, Kansas City, Kansas. He then introduced Robert Jones, CEO, United Bank, and Ms. Simpson, Marketing Officer, United Bank, to brief the Committee on United Bank's award-winning transactional account, the Gateway Checking Account.

Mr. Jones provided background information on United Bank, noting, among other things, that it was founded in 1904; that it serves a three-county area, including coastal and rural farming areas in southern Alabama and Santa Rosa County in the panhandle of Florida; and that, since its inception, the bank has served LMI consumers and small businesses in a part of the country that is economically-challenged. He advised that the Gateway product grew out of a desire to provide access to the banking sector for those interested in a banking relationship, who had either been forced out of the system for poor decisions in the past or who, for generational and cultural reasons, had never had a banking relationship. He further advised that the Gateway product started as a simple checking account with a debit card feature; that the debit card feature was subsequently rescinded because of problems with customer overdrafts; that the product is very time-intensive for staff and not necessarily profitable; but that it helped customers learn how to reconcile their bank statements and provided them with a mechanism for making deposits and cashing checks without having to resort to use of AFS providers.

Ms. Simpson then briefly discussed United Bank's experience with the Gateway account, noting that it was introduced as a product offering for customers visiting the bank who did not qualify for more traditional offerings; that, although the bank did not formally market the account, the program grew through word-of-mouth among the unbanked community and customer referrals from other banks that did not have product offerings to meet the needs of unbanked individuals; that after six months of proper account management without any overdrafts, the bank will upgrade Gateway account participants to one of its more traditional checking accounts; and that, thus far, 1,263 Gateway accounts, with an average balance of $800, had been opened, with 226 having been charged off and 532 accounts having been upgraded. Mr. Jones added that United Bank was about to introduce a new Advantage account in an effort to retain banking relationships

with Gateway customers who don't quite measure up to expectations.

Mr. Brown then introduced LaReta Lowther, Vice President for Community Reinvestment Act ("CRA") Compliance, WesBanco Bank ("WesBanco"), and Lisa Werner, Assistant Vice President and Mortgage CRA Officer, WesBanco, to discuss WesBanco's suite of credit products. Ms. Lowther began by providing information on the history and characteristics of WesBanco, advising that it was founded in 1870; serves communities in West Virginia, Ohio, and Pennsylvania; has 11 banking offices and 1,441 employees; and has a structured Community Development Department that houses the CRA compliance function and WesBanco's Community Development Corporation, which has $60 million in tax credit authority under the New Market Tax Credit Program. She further advised that, with assets of $5.4 million, WesBanco meets the large bank criteria for CRA examination purposes; serves densely-populated urban areas such as Cincinnati, Columbus, Dayton, and Springfield, Ohio, Charleston, West Virginia, and Pittsburgh, Pennsylvania, as well as large rural areas, such as central Appalachia; and that the areas served have large pockets of poverty, with the national poverty level higher than the actual incomes of low-income individuals in some of their assessment areas. Within that context, Ms. Lowther indicated that it was WesBanco's goal to offer products that meet the basic needs of LMI consumers for safe shelter and transportation, which gave rise to the bank's CRA Freedom Loan Products.

Ms. Lowther explained that the CRA Freedom Mortgage, initiated in 2001, was originally available only to LMI borrowers; that it was later expanded to include higher-income borrowers purchasing owner-occupied homes in LMI neighborhoods in recognition of the fact that the way to stabilize or revitalize LMI neighborhoods is to facilitate their transition to mixed-income neighborhoods; that it offers fixed-rate loans for purchases or no cash-out refinancing, with 30-year terms and up to 95 percent loan-to-value ratios in certain market areas; that the underwriting criteria include a reasonable credit score of 640, with credit based on the previous 12 months of credit history, and allowances for medical collections and collections for less than $1500 for individuals or $5,000 in the aggregate; and that loans made under the program are retained in-house rather than being sold in the secondary market. She also explained that the bank requires face-to-face pre-purchase counseling and an injection of at least $500 in borrower funds, and that, if a borrower becomes delinquent for more than 30 days, the bank's collections' adjuster may require additional post-purchase counseling.

Continuing, Ms. Lowther indicated that the bank's CRA Freedom Modernization Home Improvement Loan began as a source of funds for LMI borrowers seeking to undertake weatherization or other energy saving improvements to their homes; that it was later expanded to cover any home improvement project and to include higher-income borrowers renovating owner-occupied homes in LMI neighborhoods; that the loans, in amounts from $1,500 to $10,000, are unsecured and offer a fixed-rate, with up to a 10-year term; that the origination fee is $60, as compared to the bank's typical fee of $140; and that mobile home improvement projects are eligible. She then provided details on the CRA Freedom Auto Loan, noting that it is offered for new or used vehicles; is fixed-rate, with a maximum term of 72 months on new vehicles and 66 months on used vehicles; has a $2,000 minimum; requires a minimum credit score of 580; allows a slightly higher than normal debt-to-income ratio of 50 percent; has a reduced origination fee; and has a recently added refinance option.

In closing, Ms. Lowther discussed marketing and loan performance, advising with respect to marketing that the bank uses both traditional and non-tradition approaches, including community outreach, calls to commercial and small businesses, visits to auto dealerships, realtors, and home improvement contractors, and distribution of brochures; and advising with respect to loan performance for 2008, 2009, and 2010 that, although delinquency rates are slightly higher than normal, the portfolio overall performs reasonably well, especially when one considers that the country was in recession.

Next, Mr. Brown introduced Licha Ibarra, Assistant Vice President for Business Development, and William Arnold, Senior Vice President, Retail Division, Brotherhood Bank & Trust ("Brotherhood Bank"), to discuss the bank's Hispanic outreach program, noting that program elements include alternative identification and certification; homeownership through a uniquely-written mortgage product; financial education, products, and services in Spanish; a low-cost remittance product; and participation in Hispanic and Latino community events.

Mr. Arnold, providing background information on Brotherhood Bank and its Hispanic outreach program, advised that the bank was founded in 1924 on the principle of serving the financial needs of the working person; that, although the bank's principle remains the same, its market has changed with tremendous growth in the area's Hispanic population; that existing bank products were inadequate to serve the needs of the Hispanic market; and that senior management had challenged bank staff to create not only products, but programs, to reach out to the Hispanic community. Ms. Ibarra advised that the centerpiece of the

program is a 15- to 30-year mortgage loan product, with no prepayment penalties, for qualified borrowers who have an Individual Taxpayer Identification Number ("ITIN") rather than a Social Security Number, and explained that borrowers must, as part of the application process, submit tax returns for two years, pay stubs for a 30-day period, and at least three credit letters or evidence of three non-traditional credit references; and attend a HUD-certified, homebuyer class, offered by the bank in-house and presented in Spanish, that reinforces what borrowers should expect from financial institutions, sellers, and real estate agents.

Noting that the ITIN mortgage loan program was initiated in 2008 and authorized by the bank's board of directors to fund up to $10 million in loans, Mr. Arnold stated that the loan is unique in that it allows a higher debt-to-income ratio, up to 45 percent; considers household, not just borrower, income; requires a home inspection and remedy of property deficiencies prior to purchase; requires a 10 percent down payment, with only 3 percent of the funds required to be contributed by the borrower; and provides down payment assistance through a grant from the Federal Home Loan Bank for those without sufficient personal resources to fund a 10 percent down payment. He reported that, to date, the program had assisted 75 families with home purchases and 13 customers with refinancing adjustable rate mortgages.

Regarding other aspects of the outreach program, Ms. Ibarra stated that the bank has an ITIN program through which it is certified to assist individuals in obtaining an ITIN number for tax filing purposes; that it has a very affordable, no-limit remittance program, Director a Mexico, which provides account-to-account or account-to-recipient services to Mexico; and that the outreach program relies heavily on community outreach and aggressive advertising via Hispanic media, with radio advertising deemed to be the most effective. With respect to lessons learned, Mr. Arnold advised that credibility and relationships are important, with most clients wanting continuing contact with the person with whom they initially met; that bank services, such as the loan closing process, must be modified to accommodate family members, including children, grandparents, and aunts and uncles, who are oftentimes present to celebrate the fulfillment of a dream; that in-house training for customers is preferable to third-party training; that the establishment of partnerships is a key component to success; and that websites, documents, and other materials should be offered in the target population's native language.

During the ensuing discussion, Committee members asked, and panelists answered, questions on the impact of new rules on

broker compensation, the potential impact of proposals to require a minimum 10 percent down payment for mortgage loans, and the profitability of products and services targeting LMI consumers. Regarding the impact of new rules on broker compensation, Ms. Werner, in response to a question from Professor Tufano, advised that prior to implementation of the new rules, WesBanco offered an additional incentive to its loan officers for CRA Freedom Mortgage originations that are no longer permissible under the new rules. Regarding the potential impact of proposals to require a minimum 10 percent down payment for mortgages, in response to a question from Mr. Eakes, Mr. Arnold advised that, although clients served through Brotherhood Bank's Hispanic outreach program would likely have had funds sufficient to make a 10 percent down payment, such a requirement would reduce client funds available for remittances to their families or for other purposes; and Ms. Werner advised that, because such a requirement would put a strain on the financial cushion of LMI borrowers, it would definitely have a negative impact on WesBanco's CRA Freedom Mortgage.

On the issue of profitability, in response to a question from Ms. Wright, Mr. Arnold reported that the mortgage loans issued pursuant to Brotherhood Bank's Hispanic outreach program employ underwriting standards robust enough to ensure profitability, even taking into account projected delinquency ratios; that the bank's Directo a Mexico remittance service, although reasonably priced, has a profit margin built into it; that the bank's ITIN customers have, on average, about 20 percent more on deposit than the average non-ITIN customer; and that, in fact, all of the products and services through the outreach program were designed to be sustainable, both from the standpoint of scale and with respect to potential future losses. Ms. Werner reported that WesBanco's CRA Freedom Mortgage, although attractively priced, is designed to provide earnings to the bank, despite concessions on title insurance and other items; and Ms. Lowther reported that WesBanco had recently adopted a tiered pricing structure on its home improvement and auto loans to align pricing with borrower credit scores, and that 60 percent of CRA Freedom loan borrowers also maintain a savings or deposit account with the bank, both of which also have a positive impact on profitability. Mr. Jones reported that, although it is somewhat more complicated to identify the profit margin on deposit products, United Bank benefits from its practice of upselling and graduating Gateway product customers to more traditional accounts and that all of the bank's products are constantly scrutinized to ensure efficient and cost-effective operation.

Vice Chairman Gruenberg asked panelists for their thoughts on why word-of-mouth seemed to be the most effective means of

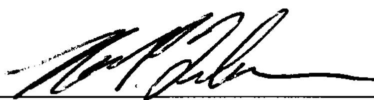
communicating information on their programs, in response to which Mr. Jones indicated that the most credible witness is someone who has experienced the product and that, often, members of the LMI community do not subscribe to traditional advertising channels, such as newspapers; and Ms. Simpson indicated that the media has created a negative image of mainstream financial institutions and, therefore, LMI consumers are more likely to rely on information from someone they know and trust.

Chairman Bair, Reverend Flake and Messrs. Henderson and Eakes offered their congratulations to the award recipients and expressed appreciation for their work in meeting the financial services needs of LMI consumers. Reverend Flake suggested that the FDIC summarize the programs of the award recipients and send them to Senator Richard Shelby, Chairman of the Senate Committee on Banking, Housing and Urban Affairs, and Representative Spencer Bachus, Chairman of the House Financial Services Committee, along with a recommendation that the summaries be introduced into the Congressional Record, in response to which Chairman Bair, agreeing that it would indeed be great to have write-ups on the programs included in the Congressional Record, indicated that Chairman Bachus' Chief of Staff was present at the previous evening's awards ceremony, and that FDIC staff could certainly send the press release and other information to Senator Shelby and Representative Bachus. Vice Chairman Gruenberg stated that the panel presentations had been very informative, commended awards committee staff for their selection of awards recipients, and advised that staff would develop templates of the programs to share as examples of ways in which other financial institutions can effectively offer products and services to LMI consumers.

On behalf of the Committee, Reverend Flake expressed gratitude to Chairman Bair for her commitment to the Committee's work and Vice Chairman Gruenberg presented her with a small gift of appreciation from the Committee, advising that, as a tribute to her leadership, all of the Committee members had agreed to continue to serve after her departure.

Chairman Bair thanked Committee members and staff for their dedication and expressed pride in the Committee's work.

There being no further business, the meeting was adjourned.



Robert E. Feldman
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