

**Remarks by
Martin J. Gruenberg, Chairman,
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Good afternoon. Before I begin, I would like to thank you for the invitation to offer remarks and recognize the work of John Taylor and the National Community Reinvestment Coalition. The challenge you are discussing—how to best aid the continuing economic recovery efforts in some of our nation's hardest hit communities—is a critical one. I hope that you will agree that as part of these efforts, we should work to ensure that consumers have access to basic mainstream financial services.

Participation in mainstream financial markets improves a consumer's ability to build assets and create wealth, protects them from theft and discriminatory or predatory lending practices, and provides a financial safety net against unforeseen circumstances.

Mainstream banking also provides consumers with advantages that are unavailable in the alternative financial services marketplace such as FDIC deposit insurance and explicit protections including those ensuring consumers can reasonably dispute charges to their account.

The FDIC has long been committed to expanding economic inclusion in the financial mainstream by improving households' access to safe, secure and affordable banking services. In doing so, we recognize that financial institutions that affirmatively seek to serve underserved populations can enhance their reputations and deepen their market penetration while delivering important value to consumers and their communities.

Today I would like to share some of what we are learning about opportunities to include the broadest possible set of consumers in the financial mainstream. I will summarize findings from recent research conducted by FDIC staff and comment briefly on the role of community and minority-owned banks in facilitating access to banking services and credit and provide you with an update on the efforts of prudential regulators to review and update Community Reinvestment Act guidance.

Unbanked Surveys

In order to have better data to help guide effective economic inclusion strategies, and in response to a statutory mandate, the FDIC periodically conducts two complementary national studies that explore households' financial behavior and banks' provision of services to underserved consumers.

Household Survey

The FDIC National Survey of Unbanked and Underbanked Households is a survey conducted in partnership with the Census Bureau to estimate the proportion of unbanked and underbanked households, their demographic characteristics, and to gain insight into why some consumers utilize alternative financial services.

The FDIC released the 2011 household survey in September and the results show that a substantial portion of the population remains unbanked or underbanked. Specifically, 8.2 percent of US households are unbanked. In fact, while 10 percent do not have a checking account, an even greater proportion—nearly 30 percent of households—lack access to a savings account.

Just over 20 percent of U.S. households are underbanked, meaning that they have a bank account but have used alternative financial services, such as nonbank check cashing or payday loans, in the past year.

Results for Demographic Groups

The national level statistics do not provide a complete picture of the banking engagement of specific segments of the population. According to the report, unbanked and underbanked rates are particularly high among lower income, less educated, younger and unemployed households, non-Asian minorities, and unmarried families with dependents, like single mothers.

For instance, among Black households, more than one in five (21.4 percent) are unbanked and a third (33.9 percent) are underbanked. Similarly, we find that 20 percent of Hispanic households are unbanked and almost 30 percent (28.6 percent) underbanked. For lower income households (i.e., those with annual income below \$30,000), unbanked rates are also about 20 percent (19.4 percent), while almost one in four (23.7 percent) are underbanked.

As you can see, for many of these groups unbanked rates are around 20 percent and underbanked rates come close to or even exceed 30 percent. However, even among these groups with high proportions of underserved households, almost half are fully banked, demonstrating that it is not only possible to bank low income households, for example, but that it happens successfully in many cases.

Differences in experiences with and motivation to join the financial mainstream
The Survey's results also show that the unbanked are not monolithic in their banking experiences or in their motivation to open an account.

Among unbanked households, slightly more than half have never had a bank account. This group represents about 4 percent of households, leaving an additional 4 percent that are presently unbanked but have had an account in the past. However, for certain demographic groups, such as Hispanics, the proportion of never-banked households is dramatically higher. The survey shows that almost 15 percent of Hispanic households have never had an account in an insured institution.

The survey also helps identify certain segments that report being significantly more likely to open an account in the future and their motivations for doing so. Previously banked households, younger households and unmarried-female headed families are some of the demographic groups that reported being more likely to be banked in the future.

These unbanked households list various motivations for opening an account. Roughly similar proportions, about 30 percent, reported transactional or safety needs: a bank account would primarily help them write checks and pay bills or put money in a safe place. About 1 in 4 felt that they would want to open an account 'to save money for the future'.

Potential demand for additional banking services

Finally, the Survey asks detailed questions about the use of financial services from alternative, non-bank providers, such as check cashers and payday lenders. Data on the use of these alternative financial services or AFS help us identify areas where banks might have opportunities to expand their offerings and broaden or deepen their banking relationships.

We find that one in four households has used at least one AFS in the last year, and almost 10 percent have used two or more types of AFS in this time frame. We also have information about recent use of AFS, and learned that about 40 percent of unbanked and underbanked households have used an AFS in the last 30 days.

The survey also asked households why they use AFS instead of banks. Consistent with our first survey, unbanked and underbanked households perceive transaction AFS, such as check cashing and money order, to be more convenient. They also perceive AFS credit to be easier or faster to obtain than bank credit.

Implications

The results from the survey lead us to four important takeaways.

First, the unbanked and underbanked populations are not a homogeneous group. As briefly mentioned earlier, these households have diverse experience, interactions, financial needs, and perceptions about the banking system. Understanding differences among different segments could lead to stronger economic inclusions strategies.

Second, having a bank account at the moment does not guarantee long-term or full engagement in the financial mainstream. Almost half of the unbanked households in the US were previously banked. So, effective economic inclusion strategies require not only bringing households into the banking system, but also keeping them in the system. The offering of low-cost deposit products with transparent fee structures could play an important role in this effort.

Third, being more fully engaged in the banking system appears to be associated with positive perceptions of bank accounts: previously banked households are considerably

more likely to want to open an account in the future and less likely to say that they are unbanked because they 'do not need or want an account.'

Fourth and finally, the survey results imply that banks need to more clearly demonstrate to AFS users that there is value and convenience in accessing financial services through a bank. Knowing that convenience is a main reason why AFS users use nonbank transaction services, banks might turn, for example, to mobile banking technologies.

Bank Survey

To complement what we are learning from consumers directly, the FDIC recently released results from a Survey of Banks' Efforts to Serve the Unbanked and Underbanked. This survey collects data from FDIC-insured institutions about their efforts to reach and provide financial products and services to underserved consumers. While the results cover a broad range of topics, including banks' retail, marketing, outreach, and efforts to educate consumers, I will focus on the results that provide insight into the structure of basic, entry-level checking and savings account products. I will also touch on the availability of ancillary products and services important to underserved populations.

The bank study finds that, on average, consumers must deposit \$100 to open either a basic checking or savings account, with a fairly large proportion of banks not charging monthly maintenance fees on either type of account. Among banks that reported a monthly maintenance fee, the average fee on checking accounts was slightly under \$7. Similarly, for banks that had a monthly maintenance fee on savings accounts, the average fee was about \$3. Few banks reported offering a lower-cost, card-based or "checkless" checking account as their most basic, entry-level account.

The study further found that it was common for banks to charge the same fee for nonsufficient funds or overdraft coverage, with these fees hovering around \$28, with larger banks tending to charge somewhat higher fees.

Encouraging formerly banked consumers to return to mainstream banking contributes to economic inclusion efforts. Unbanked consumers who may not qualify for a conventional account may be offered what is often termed a "second chance" account. The study finds that one-in-five banks (21 percent) offer "second chance" accounts.

These findings suggest that opportunities exist for banks to expand access to mainstream financial services to underserved consumers by further broadening their product offerings to include basic, lower-cost checking and savings accounts. One way this could be done is through offering card-based, all electronic deposit accounts. In doing so, consumers could open deposit accounts that offer safety and consumer protections for their funds.

Small-Dollar Lending

Eight out of ten banks said that they offer small (under \$2,500) unsecured personal loans. These institutions also tended to report repayment terms of 90 days or longer, annualized rates at or below 36 percent, and loan approvals in less than 24 hours.

Consumers in the FDIC Household survey who reported obtaining a payday loan most frequently said that they did so because either it was easier to get a payday loan than to qualify for a bank loan or that banks do not make small dollar loans.

The findings from the household survey uncover a market opportunity for financial institutions to more heavily advertise their small dollar loan product to consumers who might otherwise look to other providers such as payday lenders for small dollar credit.

Auxiliary Products

Most banks in the survey offer check-cashing, bank checks, money orders, and remittances to their customers but few offer these financial products and services to noncustomers. This finding points to another opportunity for banks.

Offering auxiliary products can be a useful tool for bringing the underserved into mainstream banking and in developing long-term, deeper relationships between institutions and consumers. By marketing and advertising auxiliary financial products and services to noncustomers, banks can encourage these potential customers to enter their branches, obtain needed financial services, and learn more about the advantages of having a deposit account.

When asked about specialty savings products, three in four banks said that they offered programs that allowed consumers to set aside savings automatically at no additional charge and over 80 percent of banks said that they offered youth savings accounts. These findings are particularly encouraging in light of the 30 percent of households that currently do not possess a savings account according to the FDIC's household survey. Offering accounts that make saving easier or that encourage a saving habit among consumers at an early age can have an enduring, positive influence on consumers' financial stability.

FDIC Economic Inclusion Activities

Building on what we learn from our surveys and from our engagement with the banking sector, we have developed a range of activities to help promote economic inclusion.

Safe accounts pilot

We know that economic inclusion efforts will be most successful if and where appropriate products are available. To this end, the FDIC's Model Safe Account Template was developed to identify transaction and savings accounts that are transparent, low cost, easy-to-understand, backed by established consumer protections and insured by the FDIC.

The results of a pilot project aimed to provide insight into the feasibility of these accounts were encouraging, suggesting that financial institutions can offer these kinds

of sensible accounts to underserved and LMI consumers. In fact, more than 80 percent of transaction accounts and 95 percent of the savings accounts opened during the one-year pilot remained open at the project's conclusion.

Recently, Key Bank and Citibank made clear their intent to affirm and deploy checkless checking accounts consistent with the Safe Accounts structure. These announcements are encouraging signals that further affirm the potential for insured depository institutions to provide basic banking services to the broadest possible segment of American consumers. In addition, Jose Cisneros—the Treasurer of San Francisco and a pioneer in the municipal-led Bank On movement—has endorsed the Safe Account model as a useful structure for the local coalitions seeking to expand economic inclusion in cities around the nation.

Small Dollar Loans

Loans originated following the FDIC Small Dollar Loan Template can be viable alternatives to AFS credit. The template was a result of a two-year pilot that sought to encourage more banks to offer small-dollar loans as an alternative to high cost credit sources, such as payday loans or fee-based overdraft programs. The pilot demonstrated that banks can feasibly offer affordable small-dollar loans in a manner that suits their business plans and is fair to consumers, including those who previously were unbanked or underbanked.

Money Smart

The FDIC's Money Smart Financial Education Program helps consumers enhance their financial skills and create positive banking relationships. It has reached over 3 million consumers since 2001 and is available in nine languages. And, FDIC prides itself on longitudinal data indicating that Money Smart is effective in driving positive changes in consumer financial behavior, and that those changes are sustainable in the months following the training. The FDIC encourages financial institutions to develop partnerships with community-based organizations and other entities to combine the use of Money Smart with access to federally insured deposit accounts and services responsive to local needs.

A version of Money Smart is now available for small businesses. We often hear from bankers that there is a lack of qualified small businesses seeking credit. Bankers commonly report having to turn away customers that have not carefully thought through the financial aspects of their business.

Money Smart for Small Business, which FDIC has partnered with the US Small Business Administration to develop and market, adds a new tool in the toolkit for providers of this technical assistance. This free resource is directed to help the individuals with no formal business training learn the basic elements important to the development of a successful small business, from record-keeping to credit reporting to banking and taxes.

Alliance for Economic Inclusion

The Alliance for Economic Inclusion (AEI) is the FDIC's national initiative to establish broad-based coalitions of financial institutions, community-based organizations, and other partners in several locations around the country to bring unbanked and underserved consumers into the financial mainstream. More than 1,360 banks and organizations have joined AEI nationwide. Since the inception of the AEI initiative, FDIC has provided leadership for the development of AEIs in these locations:

- Alabama Black Belt
- Tulsa/Northeastern Oklahoma
- West Virginia
- NW Arkansas
- Baltimore, MD
- Boston, MA
- Chicago, IL
- Kansas City, MO
- Los Angeles, CA
- Mississippi Gulf Coast
- New Orleans, LA
- Rochester, NY
- South Texas (Austin/Houston)
- Wilmington, DE
- Worcester, MA
- Detroit, MI
- Milwaukee

The FDIC provides leadership to coordinate the community partners, identify community needs, and facilitate efforts to reduce the number of unbanked consumers. FDIC staff also support Bank On coalitions. Bank On coalitions are locally led coalitions of financial institutions, community based organizations, and state/local government that provide low-income, un- and underbanked individuals with free or low-cost starter or "second chance" bank accounts and access to financial education.

As we have been involved with the leadership and support of these coalitions, we have learned that strong partnerships are keys for success. Local elected, not-for-profit and financial institution leaders set a good foundation for the effort. It has also proven important to get the support from social service, asset building and community development leaders.

Minority and Community Banking

Another primary focus of the FDIC over the past year has been our new Community Banking Initiative. Community banks play a critical role not only in local areas, but in the U.S. economy as a whole. While community banks with assets under \$1 billion may represent less than 11 percent of banking assets, they provide nearly 40 percent of the loans the banking industry makes to small businesses. In my view, there is a clear

public interest in maintaining a strong community bank sector in the U.S. financial system.

The FDIC also recognizes the importance of a special type of community bank, one with a special purpose: minority-owned and operated banks that serve minority communities. These banks play a special role in helping to foster economic inclusion. They are an important source of loans and financial services for minority businesses and individuals, to many of you here today.

The numbers are notable. Nationwide, there are 179 minority banks with \$180 billion in assets. They are an important source of small business lending too, with more than \$1 billion on the books. Minority banks make a big difference to small businesses in this region of the country.

For these reasons, we have worked to preserve and promote minority banks for more than 20 years through the FDIC National Minority Depository Institutions Program. We stay in touch with them through banker roundtables, training conferences and the bank examination process itself.

The FDIC recognizes the challenges and contributions of minority banks; particularly those serving otherwise underserved communities. And, we continue to seek new ways to sustain the work they do. Not long ago, I appointed a permanent, dedicated executive in Washington, D.C., Deputy Director Robert Mooney, to lead these minority and community development banking initiatives.

Community Reinvestment Act

Finally, I would like to say a few words about our progress reviewing Community Reinvestment Act guidance. As many of you know, on March 18, the agencies with statutory responsibility for CRA, the Federal Reserve, OCC, and the FDIC published in the Federal Register proposed revisions to the Interagency Questions and Answers Regarding Community Reinvestment. The Agencies regularly review the regulation, our guidance, and examination procedures for opportunities to assess whether updates are necessary and to promote consistency across our examinations. As part of that review, we carefully consider the public's comments and suggestions. The topic of Community Development was one area where we received a significant number of comments. After consideration, the Federal Agencies have identified areas where clarification or additional guidance may be warranted. In particular, we believe that some revisions to the Q&As that address community development would help regulated institutions better understand the opportunities to stabilize and revitalize low- and moderate-income communities.

The proposed revisions include the following amendments:

- Clarify how the Agencies consider community development activities that benefit a broader statewide or regional area that includes an institution's assessment area.

- Provide guidance related to CRA consideration of, and documentation associated with, investments in nationwide funds.
- Clarify the consideration given to certain community development services.

Address the treatment of qualified investments to organizations that use only a portion of the investment to support a community development purpose.

Clarify that community development lending may be seen to have a positive, neutral, or negative impact on the large institution lending test.

We have provided a 60-day comment period on the proposed changes to the Q&As. We encourage you to provide us with your thoughts and suggestions to ensure that these revisions effectively further the goals of the CRA. Once we have had time to consider those comments and make any appropriate changes, we expect to finalize the guidance. The Agencies also intend to revise their examination procedures to reflect the final guidance and to develop examiner training in order to promote consistent application of the guidance within and among the Agencies. Going forward, we plan to continue to look for opportunities to improve the guidance.

Conclusion

Even as I describe the FDIC's commitment to expanding access to mainstream financial services, I want to underscore that we recognize the need to continually reach out and learn from banks, community partners, and others working toward this important goal. Thank you again for the opportunity to share these thoughts. I would be happy to take some of your questions and comments.

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