

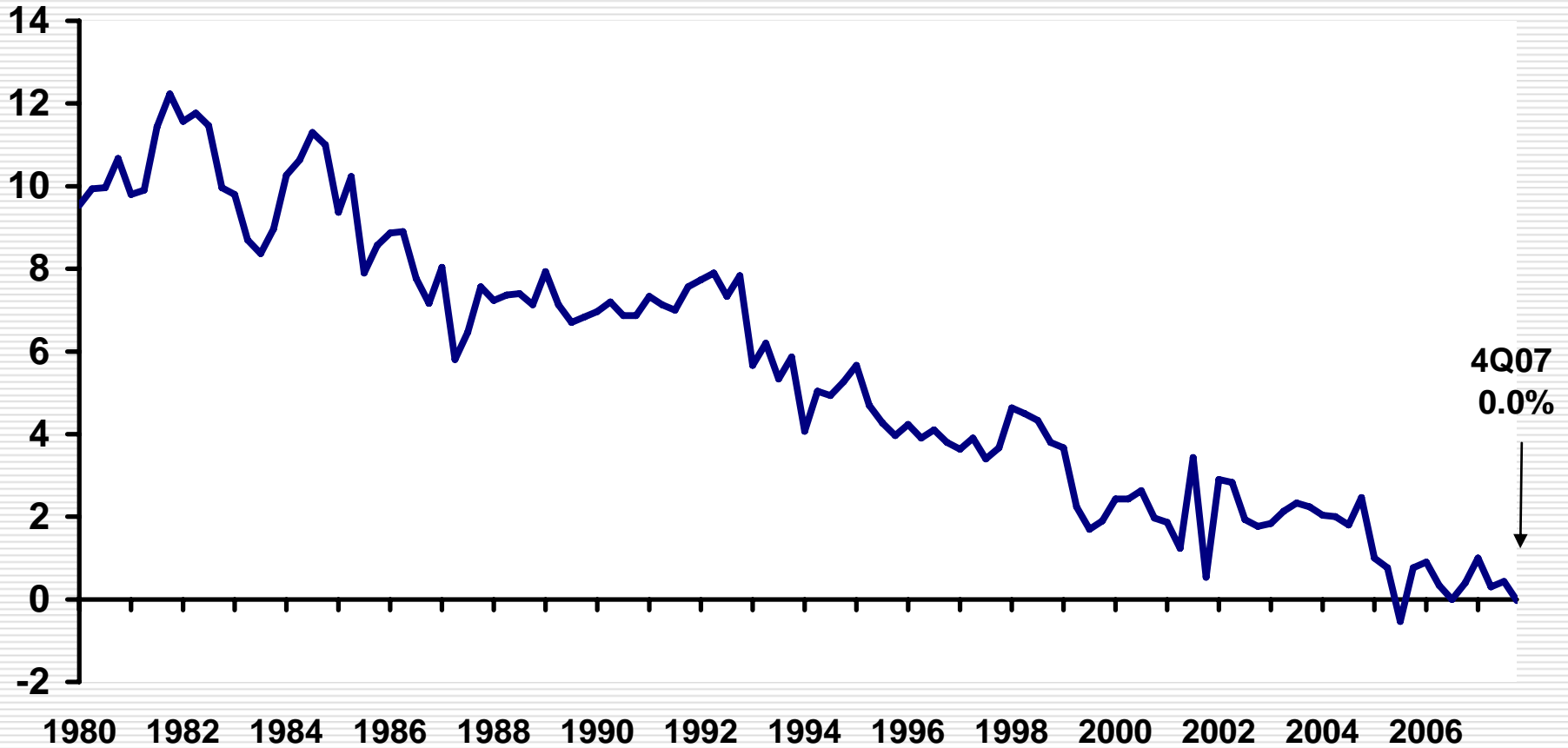
Building Assets, Building Relationships: Bank Strategies for Encouraging Savings

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The personal savings rate has trended steadily downward since the 1980s.

Personal savings as a percentage of disposable income



Source: Bureau of Economic Analysis (Haver Analytics)

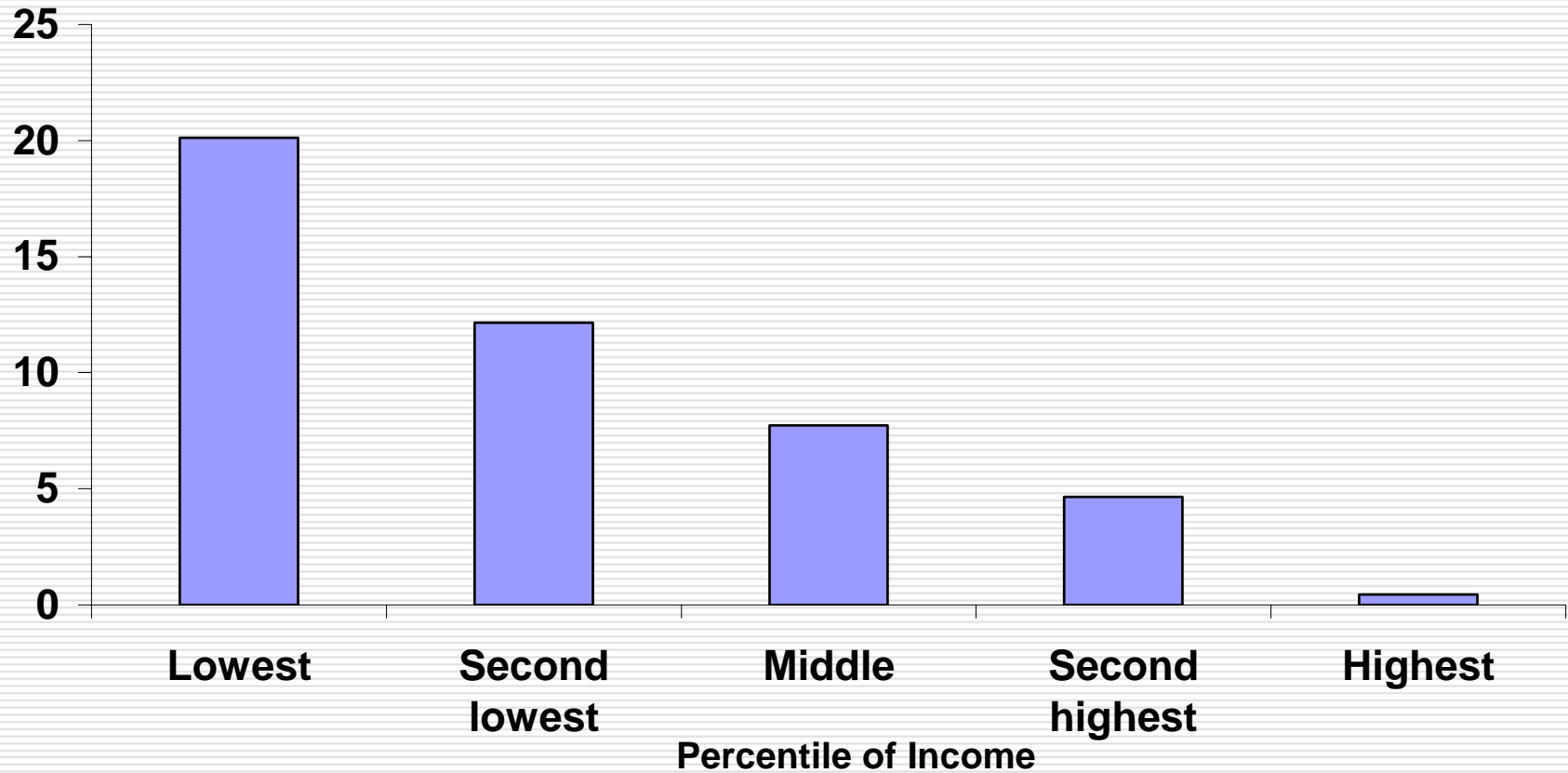
Why?

Economic theories include:

- Economic prosperity
- Wider access to credit
- Demographic factors
- Measurement is faulty

One in five households in the lowest income quintiles has liabilities that exceed assets, resulting in negative net worth.

Percent of households that reported having negative net worth



Source: Federal Reserve 2004 Survey of Consumer Finances

Barriers to LMI Saving

- Basic Expenses
- Wage Gap
- Public Policies
- Limited Credit Options
- Lack of knowledge

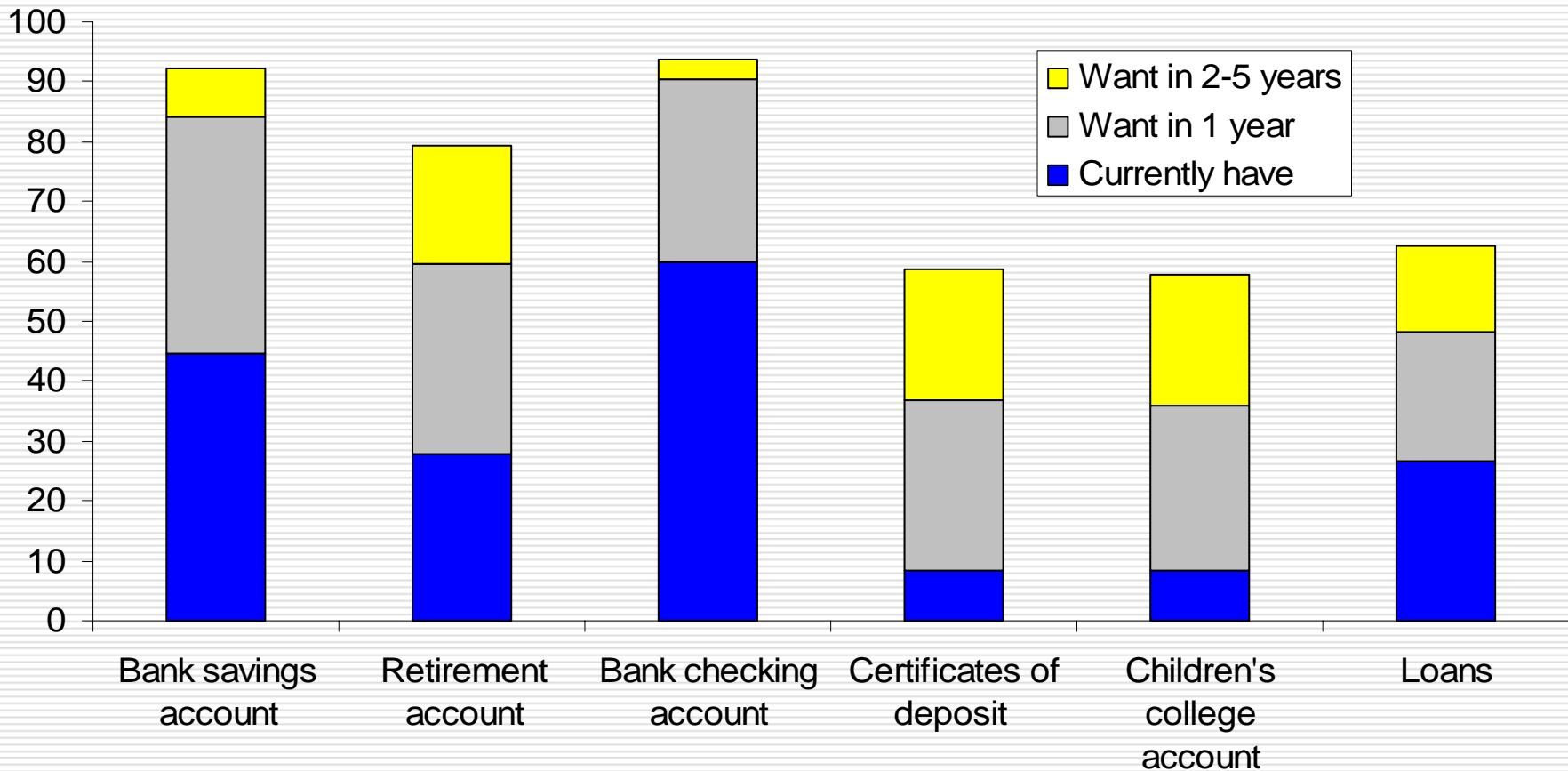
Why Encouraging Savings Makes Sense

- ❑ Check cashing companies process 1,800 million checks annually at a face value of \$55 billion
- ❑ LMI households pay more than \$8 billion in fees to check-cashers and short-term loan providers
- ❑ CRA
- ❑ Economic growth of the community

Chart 5

Many underbanked individuals would like to increase the number of mainstream financial products they own.

Percent of respondents who indicate that they currently have or want to have specified financial products



Source: Jennifer Tescher, Edna Sawady, and Stephen Kutner, "The Power of Experience in Understanding the Underbanked Market," Center For Financial Services Innovation, July 2007.

Bank Strategies

- Do no harm
- Direct Deposit
- By providing non-account services
- Partnering with other organizations
- Leveraging tax refunds
- Linking credit and other products to savings

Bank Strategies: *Do no harm*

- Reasonably priced products and services
 - Such as options to provide overdrafts

Bank Strategies: *Direct Deposit*

- According to CFSI study, two-thirds of checks cashed at non-bank outlets consisted of payroll checks, and another 18 percent were state or federal benefits checks.

Bank Strategies: *Non-account services*

□ Financial education

■ FDIC Longitudinal survey of Money Smart

- 69% reported an increase in savings, and 37% without a savings account opened one after completing Money Smart

□ IDA Research: *Can the Poor Save in IDAs?* 2,364 participants over 24.5 months (Schreiner et al., 2002)

- Average monthly deposit: \$19 net, \$40 gross
 - With average match of 2:1, savings was \$700 per year
 - Regression found financial education is correlated with greater savings, but only up to 10 hours
-

Bank Strategies: *Partnering*

- Examples include:
 - America Saves
 - AEI
 - IDAs
 - Student-run Bank Branches

Bank Strategies: *Tax Refunds*

- Volunteer Income Tax Assistance

Bank Strategies: *Linking*

- Rewards tied to credit cards
- Rewards tied to deposit accounts
- Credit builder products

The range of programs

Described by Professor Peter Tufano in Using Financial Innovation to Support Savers: From Coercion to Excitement

(<http://www.fdic.gov/about/comein/agendaMar1908.html>)

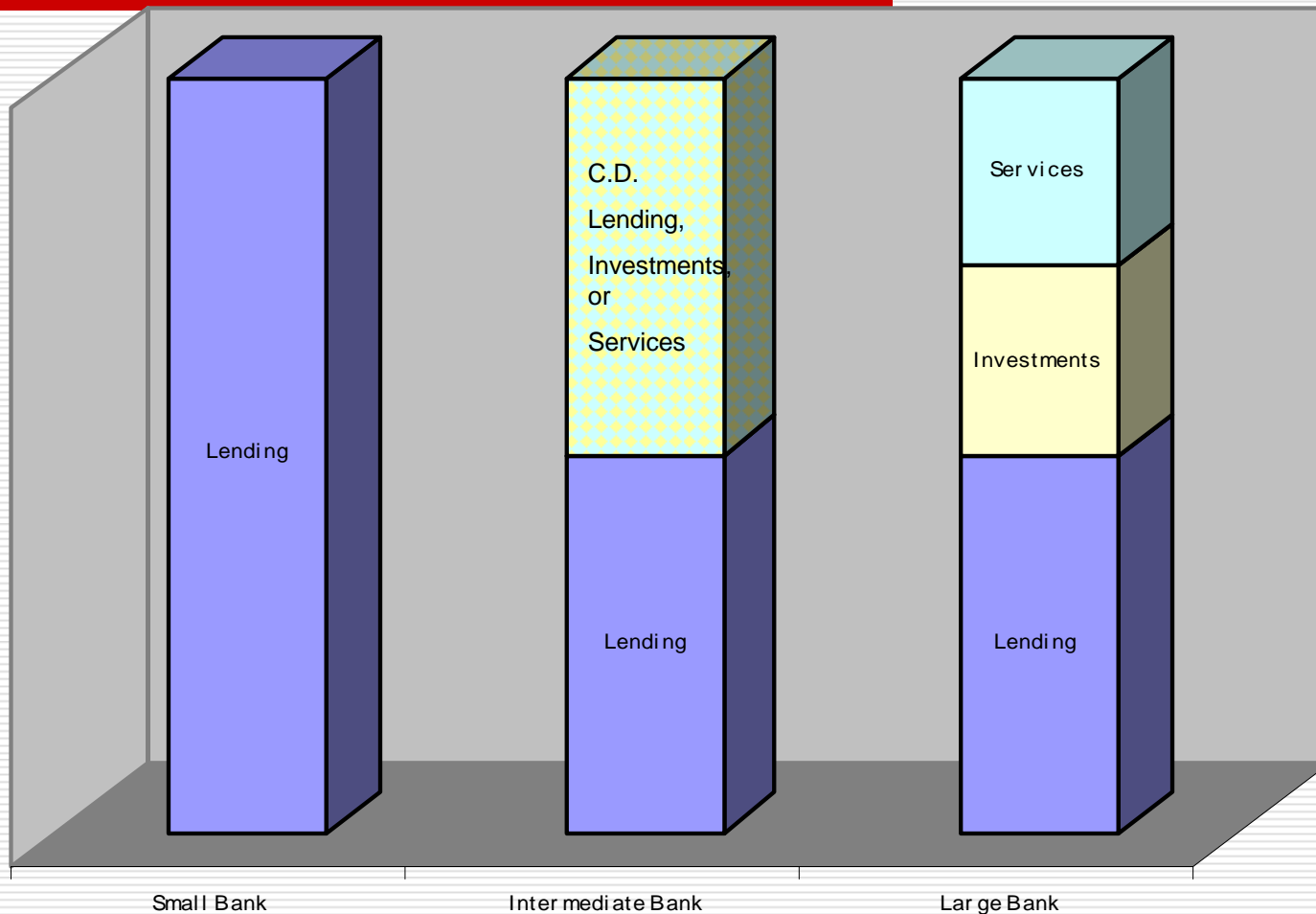


Force to Save **Make Hard *Not* to Save** **Make Easy to Save** **Bribe to Save** **Social Support** **Make Fun & Exciting**

A bank's approach

- Develop Corporate Commitment**
 - Understand the LMI Segment**
 - Realize differences
 - Research
 - Develop a Strategy**
 - Client centered, culturally relevant products
 - Relationship Focused
 - Form partnerships
 - Pilot proposed programs
 - Track successes**
-

CRA Incentives for Saving



Questions / Discussion

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