

ECONOMIC INCLUSION

Reaching the Unbanked and Underbanked

John F. Carter

FDIC Regional Director, San Francisco Region

FLEC Northwest Regional Conference

Seattle, Washington

March 27, 2007

Economic Inclusion

A FDIC Priority

Why does it matter?

- Personal savings rates in the U.S. was at **negative 1.2 percent** in 2006 --- the lowest level in 70 years.
- Studies indicate that the average American household has less than \$10,000 in net financial assets - including retirement savings.

Economic Inclusion

A FDIC Priority

- Current estimates are 28 million unbanked and 44.7 million underbanked people in the U.S. --- 19.4% of all households.
- The combined un- and underbanked populations are estimated at 40 million households and **\$1.1 trillion** in income.
- Low income families must often resort to high-cost credit products, high-fee check cashers or payday loans which can lead to a vicious cycle of debt.

Economic Inclusion

A FDIC Priority

- CFSI reports that Americans spend at least \$10.9 billion on more than 324 million alternative financial transactions a year.
- The Consumer Federation of America shows that people without savings are six times more likely to use such products.
- Those who lack access to the banking system spend significantly more on financial transactions.

Economic Inclusion

A FDIC Priority

What can be done?

- Encourage banks to provide an alternative to high-cost and often predatory financial products for low- and moderate-income individuals and families, including the unbanked.

Underserved consumers generate more than \$1.1 trillion in annual income, of which unbanked consumers represent nearly \$510 billion each year.

Economic Inclusion

A FDIC Priority

- Offer reasonably priced, basic financial services --- such as check cashing, money orders, and most importantly, savings accounts --- to help build savings and improve credit-risk profiles.

This will lower the cost of payment services, eliminate a common source of personal stress, and access lower-cost sources of credit.

Economic Inclusion

A FDIC Priority

- FDIC proposal to give banks CRA credit for providing *low-cost* alternatives to high-cost payday loans.
- Chairman Bair's Advisory Committee on Economic Inclusion (ComE-IN) to explore in detail the incentives to banks and whether we can do more to encourage savings products.

Economic Inclusion

A FDIC Priority

Regional Initiatives to Reach the Unbanked

- **Volunteer Income Tax Assistance (VITA)** - provides free tax-preparation services for low- and moderate-income taxpayers, helps increase awareness of the federal EITC and can encourage the utilization of tax refunds in financial savings programs targeted at unbanked and underserved communities.

Economic Inclusion

A FDIC Priority

- **Individual Development Accounts (IDAs):** Provide matched savings for low- and moderate-income families who are building toward the purchase of an asset such as a home, a small business, or college education.
- **Financial Education:** FDIC's *Money Smart* helps consumers develop money-management skills and learn how to use banking services effectively. Available free of charge and in six languages.

Economic Inclusion

A FDIC Priority

- ***Bank on San Francisco***: A joint effort by the Office of the Mayor, the Office of the Treasurer, the Federal Reserve Bank of San Francisco and other regulators and financial institutions to bank 10,000 unbanked individuals in San Francisco through opening low-cost, starter savings accounts.
- **Student-run bank branch**: Positive outcomes include job-training and resume building (for college) for students, an employee base for the bank, and expanded access to mainstream financial services for students, faculty and their families.

Economic Inclusion

A FDIC Priority

- **Reasonably priced short-term loan products with a savings component:** Provide sensible alternatives to payday loans in a way that helps families manage their short-term credit needs and build a savings cushion for emergencies.
- **Take an active role in the debate over our nation's savings policy.**

Economic Inclusion

A FDIC Priority

Conclusion

All consumers have a right to economic inclusion and to expect reasonable access to full-service financial products and services.

Our shared commitment and vision is essential in providing low- and moderate-income families increased access to mainstream financial products and services.

FDIC Points of Contact

Linda D. Ortega

Community Affairs Officer

415-808-8115 lortega@fdic.gov

Lisa N. Kanemoto

Community Affairs Specialist

415-808-8109 lkanemoto@fdic.gov

Jacqui R. Gordon

Community Affairs Specialist

415-808-8241 jgordon@fdic.gov