FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

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ADVISORY COMMITTEE ON ECONOMIC INCLUSION

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WEDNESDAY,
NOVEMBER 13, 2024

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The Advisory Committee convened at 9:00 a.m., in the Federal Deposit Insurance Corporation Board Room at 550 17th Street NW, Washington, D.C., Martin J. Gruenberg, Chairman, FDIC, presiding.

PRESENT:

MARTIN J. GRUENBERG, Chairman, FDIC
STEVEN L. ANTONAKES, Executive Vice President, Enterprise Risk Management, Eastern Bank
MARLA BILONICK, President and CEO, National Association for Latino Community Asset Builders, NALCAB
MICHAEL CALHOUN, President, Center for Responsible Lending
NAOMI CAMPER, Chief Policy Officer, American Bankers Association, ABA
EDWARD DEMARCO, President, Housing Policy Council
THOMAS FOLEY, Executive Director, National Disability Institute
WADE J. HENDERSEN, ESQ., Senior Advisor, The Leadership Conference on Civil and Human Rights
MARGARET LIBBY, CEO and Founder, MyPath

BRANDEE MCHALE, President, Citi Foundation, Head, Community Investing and Development, Citi
JONATHAN MINTZ, President and CEO, Cities for Financial Empowerment Fund
LEIGH PHILLIPS, President and CEO, SaverLife
MARIETTA RODRIGUEZ, President and CEO, NeighborWorks America
JENNIFER TESCHER, Founder, President and CEO, Financial Health Network
SUSAN WEINSTOCK, President and CEO, Consumer Federation of America

ALSO PRESENT:

MICHAEL J. HSU, Acting Comptroller of the Currency

ELIZABETH ORTIZ, Deputy Director for Consumer and Community Affairs, FDIC; Designated Federal Officer

LUKE BROWN, Associate Director, Division of Depositor and Consumer Protection, FDIC

SUSAN BURHOUSE, Senior Consumer Researcher, Division of Depositor and Consumer Protection, FDIC

GARETT CHRISTENSEN, Senior Research Economist, Division of Depositor and Consumer Protection, FDIC

KEITH ERNST, Associate Director, Division Of Depositor and Consumer Protection, FDIC

YAN LEE, Assistant Director, Division of Depositor and Consumer Protection, FDIC

SHIVALI NANGIA, Assistant Director, DRR

YAZMIN OSAKI, Senior Consumer Researcher, Division of Depositor and Consumer Protection, FDIC

JONATHAN PRESLER, Research Economist, Division of Depositor and Consumer Protection, FDIC

JAMES WATTS, Counsel, Legal Division

JEFFREY WEINSTEIN, Senior Research Economist, Division of Depositor and Consumer Protection, FDIC

MERON WONDWOSEN, Assistant Director, Division of Depositor and Consumer Protection, FDIC

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P-R-O-C-E-E-D-I-N-G-S

9:03 a.m.

CHAIRMAN GRUENBERG: Okay, I can start this meeting of the FDIC's Advisory Committee on Economic Inclusion and welcome you all and thank you for your participation.

This has been a committee that has provided enormous value to the FDIC, has really helped us think through and act on some important issues relating to expanding access to the banking system of the United States.

And I think it's fair to say, over its existence, I'd have to go back and check, but well more than a decade, it's really made some valuable contributions. So, thank you all for your willingness to serve.

Before I provide an overview for the agenda for today, I did want to take a moment to welcome back to the committee a returning member.

Wade is not here yet, but I view it as an achievement for us to get Wade Henderson to come back and serve on this committee.

As I'm sure many, if not all of you, know, Wade served for over 20 years as the President and CEO of the Leadership Conference on Civil and Human Rights. Wade is one of the great civil rights leaders of our country.

And for a long time he's had a particular interest in issues relating to community reinvestment and access to the banking system of the United States for everybody who lives in this country. So, it's really terrific that Wade was willing to come back and serve again in this committee.

Let me briefly give an overview of our agenda for today which is a full one and one that I think will be of great interest to all of you.

We'll begin with a presentation on the 2023 FDIC household survey of who's unbanked and underbanked in the United States.

This year's report places a particular emphasis on long-term trends toward expanded participation in the banking system.

And it also includes some new and

interesting questions.

We asked households about their use of buy now, pay later which, as you know, are short-term loans that allow consumers to split their payments on purchases over time and have experienced increased usage.

We also asked questions about the use of non-bank transactions by underbanked households as well as the use of crypto assets to understand who holds them and how they're being used.

Following the presentation on the survey, we'll immediately begin our member roundtable and, obviously, seek their reaction to the results of the survey which we very much look forward to.

After lunch, I think we have two interesting sessions.

The first will focus on qualitative consumer research that the FDIC has undertaken and discuss highlights of some recent consumer focus groups.

Today's panel, Consumer Perspectives on Banking Today, will share some of what we've learned through qualitative research to help better understand the ways in which consumers are viewing financial services both by banks and by non-bank firms.

And finally, and importantly, the last panel of the day will provide us an opportunity to discuss the FDIC's proposed rulemaking to create new record keeping requirements to establish guardrails --

Wade, you missed my glowing introduction.

(Laughter.)

CHAIRMAN GRUENBERG: But welcome.

MEMBER HENDERSON: Good morning.

CHAIRMAN GRUENBERG: Just finishing my overview of the agenda for today.

As I mentioned, the final item will be a discussion of the FDIC's proposed rulemaking to establish new record-keeping requirements to create guardrails and controls for banks with custodial deposit accounts with transactional features. That's a fancy way of saying banks utilizing deposits that they receive through third parties.

This proposal would strengthen the record keeping requirements for FDIC insured institutions holding consumer deposits in custodial accounts from third-party non-bank companies that have accepted deposits on behalf of consumers and businesses.

This rule was really prompted, it's fair to say, by the experience with Synapse, which was a non-bank tech company, essentially a deposit broker taking deposits from a number of other non-bank companies.

And those companies received those deposits from the public, from consumers and businesses with the representation that those deposits would be placed in FDIC insured accounts.

And the fact is, that a substantial -- despite the representations, it appears that a substantial number of those deposits may not actually have been placed in FDIC insured accounts.

Synapse, which has now failed, which is another complication here because people don't understand that non-bank company may take their deposits and represent they're going to put them in a bank, in an FDIC insured bank, but that non-bank intermediary, of course, is not insured by the FDIC.

I think that's an additional point of confusion.

But in the case of Synapse, Synapse represented that it had placed $200 million in several FDIC insured institutions.

And thus far, the banks have been able to identify only about $100 million in deposits.

So, there are thousands of customers who believed their deposits were in FDIC insured accounts who currently do not have access to those deposits.

That's a problem for them.

And that's a problem for the FDIC.

And it really is a matter of urgency for us to address that issue. And that's what this proposed rulemaking would do.

Given the rapid growth and increased complexity of these third-party deposit arrangements, instituting requirements to strengthen record keeping is an important step to ensuring that banks know the actual owner of the deposits placed in a bank by a third-party, whether the deposit has actually been placed in the bank, and that the bank is able to provide depositors their funds, even if the third-party fails.

These requirements also support the prompt payment of deposit insurance in the event of a bank's failure.

So, our final session today will focus on that issue.

So, I think it should be an interesting day. I don't think you'll be bored. We look forward to your engagement.

And let me now turn the program over to Liz Ortiz, our Deputy Director in our Division of Depositor and Consumer Protection and our -- the group that's responsible, in particular, for consumer and community affairs will be our moderator for today's program.

Liz, it's all yours.

MS. ORTIZ: Thank you, thank you, Mr. Chairman.

And let me join the Chairman in welcoming all of you here today. It's wonderful to see you all and I share his enthusiasm for today's agenda.

And without any further delay, I'm delighted to turn the mic over to Yan Lee, our Assistant Director for Consumer Research.

Yan?

MS. LEE: Thank you, Liz.

Good morning, Mr. Chairman, Members of the committee.

We are delighted today to be sharing findings from the 2023 FDIC National Survey of

Unbanked and Underbanked Households, or as we call it, the Household Survey.

As you all may know, this is the authoritative assessment of U.S. households participation in our banking system.

And every two years, new findings tell us where the opportunities may lie for us to increase economic inclusion.

So, joining us today are our Research Economist and our survey team, Jeffrey Weinstein, Garret Christensen, and Jonathan Presler who will walk us through high level findings.

And Consumer Researcher, Susan Burhouse and Yazmin Osaki who will talk us through our implications.

So, let me walk through the agenda for today in our first panel.

So, Jeffrey will walk through our U.S. -- the current status of U.S. households and the banking system.

Garret will talk through our household usage of credit and crypto.

And then, Jonathan will talk about households' usage of non-bank transactions and how that plays into our understanding of what we consider underbanked households.

And there will be a time to ask questions of the survey team.

Then, I'll walk through a summary of the findings.

And Susan and Yazmin will share implications from these findings.

And then, there'll be another opportunity to ask questions of the entire panel.

And then, finally, I'll share some ways for you all to learn more about the survey data.

Okay, so with that, Jeffrey will start.

But before you begin, Jeffrey, as the team lead of the report writing team, can you share with us new ways that the team approached analysis of the findings this year?

MR. WEINSTEIN: Okay, sure.

Thank you, Yan.

So, just a couple of new types of analyses that we include in the report are, one, talking about longer term trends in unbanked rates and use of other financial services.

And we did this just to paint a picture of expanded economic inclusion over the past decade or longer and also capturing some of the ways in which technology has transformed banking.

So, you'll see those results in a little bit.

And also, the executive summary for the report contains spotlights that highlight use of financial services among Black, Hispanic, American -- and American Indian or Alaska Native households as well as working age households with disabilities.

All right, so just a brief overview first about the survey.

So, the FDIC national survey of unbanked and underbanked households contributes to our understanding of economic inclusion.

It's conducted biannually since 2009 in response to a statutory mandate.

It's administered in partnership with the U.S. Census Bureau as a supplement to the monthly current population survey.

The sample is nationally representative and it draws representative samples from all 50 states and the District of Columbia.

The most recent survey which was conducted in June of 2023 collected responses from almost 30,000 households.

And the FDIC publishes estimates at the national and state levels and for larger metropolitan statistical areas, MSAs.

All right, so getting right into the results, so first of all, as you all know, ownership of an account at a federally insured institution provides many benefits, including a safe place to store money and to save.

But at the same time, bank account

ownership is not universal.

We can see from this figure that, in 2023, 4.2 percent of U.S. households, approximately, 5.6 million, were unbanked.

We can also see that between 2021 and 2023, the unbanked rate changed very little. In 2021, it was 4.5 percent, similar to 2023 when it was 4.2 percent.

However, if we look over the longer term horizon, between 2011, when the unbanked rate was at its highest level since the survey began in 2009 and 2023, the unbanked rate fell by almost half from 8.2 percent to 4.2 percent.

And just to get a sense of what may be going on, about two-thirds of the decline of the unbanked rate over this period was associated with changes in the socioeconomic circumstances of U.S. households, particularly increases in income and educational attainment.

All right, look at -- trying to disaggregate this a little bit, so since this survey was first conducted in 2009, unbanked rates have decreased substantially across Black, Hispanic, and American Indian or Alaska Native households which are demographic groups with historically high unbanked rates.

So, that's what's shown in this -- that's what's shown in this figure.

So, we can see that unbanked rates among Black, Hispanic, and American Indian or Alaska Native households fell by about half between 2009 and 2023.

Just to take one of the lines as an example, if we look at the dark blue line for Black households, we can see that, in 2009, 21.4 percent were unbanked and that decreases to 10.6 percent in 2023.

However, at the same time, we see that unbanked rates among Black, Hispanic, and American Indian or Alaska Native households in 2023 remained several times higher than the unbanked rate among white households, which is the gold line.

So, if you look at the 2023 numbers

which are boxed and bolded.

All right, so, these improvements that we talked about also extend past race and ethnicity.

For example, among working age households with a disability, this is the dark blue line, the unbanked rate declined by about one-third from 18.3 percent to 11.2 percent between 2009 and 2023.

However, despite this improvement, the unbanked rate among working age households with a disability in 2023, 11.2 percent, remained about three times as high as the unbanked rate among working age households without a disability, the light blue line, at 3.7 percent.

All right, another interesting look at the data is for single parent households, there are another demographic group with historically high unbanked rates.

However, the unbanked rate has fallen, as we can see.

So, between 2009 and 2023, the

unbanked rate among single parent households, the dark blue line, fell by about half from 25.8 percent to 12.3 percent.

As with single parent households overall, we can look at single mother and single father households and we see in these cases as well, the unbanked rate has fallen by about half, if we look at the light blue line and the gold line.

However, it's still the case that the unbanked rate among single parents, single mother, and single father households is much higher, continues to be much higher in 2023 than the unbanked rate among married couple households with children which is the green line.

So, as we saw in the previous three slides, unbanked rates have fallen substantially over time for several groups that historically have had high unbanked rates.

But this slide shows there's still room for improvement.

So, this slide is showing unbanked

rates by selected household characteristics in 2023.

We can see here that unbanked rates among lower income households, households with less educational attainment, Black, Hispanic, and American Indian or Alaska Native households, and working age households with a disability continue to have higher unbanked rates.

So, for example, if we look at education in the second set of bars, the gold bars, the unbanked rate among households without a high school diploma was almost 20 percent in 2023, but the unbanked rate was much lower for households with a high school diploma.

And then, for households that have some college or a college degree, the unbanked rate was even much lower than that.

Another interesting finding is if we look by geography.

So, we can see from this figure where darker colors indicate states that have higher unbanked rates.

Unbanked rates in 2023 varied widely across states and were generally highest amongst states in the south.

And if we just take -- if we just think about what the range would look like, we see from the data that the unbanked rate ranged from 0.9 percent in Virginia and Vermont, to 9.4 percent in Mississippi.

So, quite a large range across states.

Next, we turn to unbanked reasons. So, we want to understand possible barriers to bank account ownership.

And so, in order to do that, the survey continued to ask unbanked households about their reasons for not having a bank account.

And so, we see here, if we look at the top set of bars, in 2023, 42.3 percent of unbanked households cited not having enough money to meet minimum balance requirements as a reason for not having an account. That was the most commonly cited reason.

And it was also the most commonly

cited main reason for not having an account at 23.3 percent.

If we look at the dark blue and then, the lighter blue bar.

In addition, don't trust banks, the second set of bars, was also a very commonly cited reason at 36 percent. And it was also the second most cited main reason for not having an account at 15.7 percent.

Another really interesting cut of the data is, if we look at unbanked reasons and how they differ by whether a household was interested in having a bank account.

So, the survey asked households whether they were very, somewhat, not very, or not at all interested.

And we can divide households in terms of whether they were very or somewhat interested in having a bank account and those that were not very or not at all interested.

And when we do that, we see pretty stark differences in some cases between unbanked reasons.

So, if we look at the second and third sets of bars, we see that households that were not very or not at all interested in having an account were much more likely to cite not trusting banks or avoiding a bank gives more privacy and households that were very or somewhat interested.

In addition, if we look a little further down the page, we see that banks not offering needed products or services was also higher among households that were not very or not at all interested.

While on the other hand, not having personal identification required to open an account was more cited among households that were very or somewhat interested in having a bank account versus those that were not very or not at all interested.

So, what are these -- what can these findings imply?

You know, we can see that trust,

privacy, bank product offerings may be more salient for unbanked households that are not that interested in having an account compared with those that are interested.

All right, so the next few slides are going to turn to banked households and how they access their bank accounts.

So, we know that households can access their bank accounts in several ways, through in person methods like bank tellers or ATMs or bank kiosks, and through offsite methods such as mobile, online, or telephone banking.

So, this figure is going to focus on three methods, using a bank teller, mobile banking, and online banking.

And it's going to specifically focus on whether this was the primary method that households use to access their bank accounts.

And what's nice about looking at this ten-year trend is that we see really stark changes in access methods over time.

So, we look at the lighter blue line

which is for mobile banking, we see that from 2013 to 2023, use of mobile banking increased ninefold from 5.5 percent to 48.3 percent.

So, in 2023, almost half of banked households use mobile banking as their primary method of account access.

In comparison, we see, if we look at the dark blue line for bank tellers, that fell by about half between 2013 and 2023.

Whereas use of online banking, the gold line, fell by about one-third.

So, we saw these big changes in use of mobile banking overall.

This -- these changes are also present when we look by age.

So, this figure focuses on use of mobile banking as the primary method and disaggregates that by age group.

And so, we see here, if we look at all age groups, use of mobile banking increased dramatically.

And focusing on the lowest lines for

households aged 65 years or older, they are -- these households are less likely to use mobile banking than younger households.

However, between 2013 and 2023, mobile banking increased from .6 percent of U.S. households to 19.3 percent. So, it increased almost thirtyfold over this ten-year period.

This slide is going to focus on bank tellers.

So, we note -- we do mention in the report that the use of bank tellers is the primary method of account access.

This declined over time, was widespread across household characteristics.

However, it was the case that this method remained -- continued to be prevalent among certain groups as we can see here among lower income households, households with less educational attainment, older households, and then, households that did not live in a metropolitan area.

So, let's just take metropolitan area

as an example, the left set of bars, households that did not live in a metropolitan area, for those households, 24.0 percent used a bank teller as the primary method.

And for households that lived in a metropolitan area, it was about half that amount, 13.8 percent.

But I do want to comment here that it's still case that, even though use of teller has -- use of bank tellers has fallen as the primary method, it's still the case that more than 90 percent of all banked households use an in person channel, ATMs, or bank tellers at least once in 2023 to access their accounts.

So, what does this really mean?

It means that, while use of bank tellers has fallen substantially with respect to how households primarily access their accounts, almost all banked households do seem to take advantage of an in person method at least once per year.

Okay, so, this slide shows smartphone

access over time.

Well, why do we care about this?

Well, financial institutions are seeking to interact with their customers through the internet and mobile phones, especially smartphones.

We can see that over the past decade, among all households, the percentage that owned or had regular access to a smartphone, this is the dark blue bar, increased substantially from about 60 percent to almost 90 percent over this ten-year period.

We see that this is true for both banked households and unbanked households, looking at the lighter blue and orange lines.

They both experienced increases in smartphone access.

With unbanked households, the percent that had smartphone access doubled between 2013 and 2023.

However, it still was the case that smartphone access was lower among the unbanked compared with the banked.

And I'll just mention here, going forward, because a lot of the figures will be disaggregating by banked and unbanked, just please pay close attention to the orange lines as they will always be used to depict unbanked households.

All right, so, before we move on to Garret to talk about credit and crypto, I just want to give some brief -- a brief summary.

So, we can see from what I've talked about that there's been dramatic declines in the unbanked rate, even for households with historically for high unbanked rates, but there's still a lot of room to improve.

And also, households are increasingly relying on technology to access their bank accounts versus in person options.

Especially we can see that almost half of banked households now use mobile banking as the primary method of account access.

And use of smartphones has increased

dramatically among unbanked households.

MS. LEE: Great, thanks so much Jeffrey.

So, turning to Garret who will share with us findings on credit and crypto.

Before Garret shares, Garret is also on the team that prepared the 2023 instrument.

So, a separate team developed a questionnaire for 2023.

So, Garret, before you share, can you tell us why the team decided to include the new topics of buy now, pay later and crypto?

MR. CHRISTENSEN: Yes.

Thanks, Yan.

So, it's challenging to know what to put in a survey because there's a strict time limit to keep the response rate high.

So, and you want to keep old questions in, so we get long-term trends like some of what Jeffrey's just shared.

But we want to stay on top of the market and see if new products are tools for financial inclusion.

So, that's why we decided to add the BNPL and crypto.

So, but first, we'll talk briefly about mainstream credit products.

So, here, we see use of mainstream credit products by bank account ownership and mainstream credit products are the top six of these.

So, these are the things that get reported to the credit bureaus, traditional credit cards, store credit cards, mortgage products, and home equity products, home equity loans, auto loans, student loans, and other personal bank loans.

Credit cards were, by far, the most common form of these, overall 76.4 percent of households have a credit card, far higher amongst banked households than unbanked.

Amongst the banked households, 13 percent of households have no mainstream credit, while 78.4 percent of unbanked households have no mainstream credit.

And we focus on the 15.7 percent of households that have no mainstream credit in the next slide.

So, this is -- we're digging deeper on these 15.7.

Overall, this 15.7 that's coming down from 20 percent of households in 2017.

Lower income households and lower education households are significantly more likely to have no mainstream credit.

And households with a disability are also more likely to have no mainstream credit.

Just the overall summary of mainstream credit is that more households have mainstream credit over time.

As an alternative to mainstream credit, we have alternative credit products such as rent to own services, payday, pawn shop, auto title, and tax refund anticipation loans.

9.2 percent of unbanked households use any of these alternative credit products that we asked about compared to only 5.7 percent of banked households.

And most, although not all of these products, are more likely to be used in unbanked households.

And payday loans is actually pretty similar across the types of households by banking status.

So, on to the new products that we asked about, buy now, pay later.

So, we added the question, in the past 12 months, did you or anyone in your household pay for something making one payment every two weeks?

This is sometimes called buy now, pay later or pay in four.

And there were also a couple follow up questions, but the answer to this overall was 3.9 percent of all households have used BNPL in the past 12 months.

So, again, at the top overall, 3.9 percent of households, and then, we break it down by characteristics and see that banked households were slightly more likely to use BNPL, 4 percent compared to 1.6 percent as were younger households, the 15 to 34-year-old group, 7.6 percent of those households, and Black and Hispanic households were more likely to use BNPL at 6.1 percent and 5.3 percent of households respectively.

One of the follow up questions was about whether you had missed or made a late payment on the BNPL?

So, this is all among the households that used BNPL, overall, 12.8 percent of households missed or made a late payment.

Lower income households were more likely to miss a payment, 21.4 percent, as were households with variable income, 16.7 percent, and households with disabilities, 28.9 percent.

And just for comparison, from -- not from our survey, but from other survey data, 23 percent of households missed or made a late credit card payment in the past 12 months. So, just comparing that to the -- our 12.8 percent.

Then, if we compare users of BNPL and nonusers. So, these are households that use BNPL and households that didn't.

So, in the top half, we see that 93.5 percent of BNPL user households had some form of mainstream credit, predominantly credit cards, compared with 83.9 percent of households that didn't use BNPL.

And then, in the bottom half, we see that 20.9 percent of BNPL user households used at least one of the alternative credit products, which is significantly higher than the 5.2 percent among households that did not use BNPL.

So, it's hard to say for sure, but this could indicate that BNPL users have some other form of mainstream credit, but they would like more or that they simply are more comfortable using all different types of credit that's available to them.

On to the other new question, crypto.

So, we asked, in the past 12 months,

did you or anyone in your household own or use any crypto such as Bitcoin or Ether?

And there were a couple of follow up questions, but the answer to that was an overall 4.8 percent of households had owned or used crypto in the past 12 months.

So, digging more into that, banked households used crypto more than unbanked households, 5 percent compared to 1.2 percent.

And crypto use was higher among higher income households. So, in the greater than $75,000 a year bucket, that's 7.3 percent.

And it was also higher among white and especially Asian households, white households, 5.2 percent and Asian households, 7.5 percent.

And if you break it down by income level, no sorry, yes, yes, by income level, but and by use, so specific uses of crypto by income level, the vast majority of households, among both high- and low-income households, held crypto as an investment far more than using it to make purchases or to send or receive money.

So, upwards of 90 percent overall are using it to -- as an investment.

So, to summarize, both these new products we asked about, it's not clear that either of these are means of increasing financial inclusion.

And I'll pass it on to you, Jonathan.

MS. LEE: Thank you.

Okay, Jonathan.

So, Jonathan will be walking through non-banked transaction products that households may use to conduct their financial transactions.

And with that, he'll expand on usage of different products that might contribute to what we consider underbanked households.

But this year, we also focused on households that are cash only. So, this is a new area of focus.

So, Jonathan, can you kind of share with us why that was -- that this type of household is highlighted in this year's report?

MR. PRESLER: Sure, Yan.

So, as we'll see, a number of households use prepaid cards or online payment services in order to kind of fulfill some of the functions of a bank account.

However, most unbanked households aren't using any products like these and they're really using paper based products like money orders or cash.

And so, these households are excluded from these electronic payment networks and, as a result, we're looking at these as cash only households.

So, let's look a little bit at some of these components to defining who is cash only.

So, the first here are non-bank online payment services.

And we first started asking about these in 2021.

And here in 2023, we see a slight increase in the use of these non-bank online payment services by all household types here, whether they have a bank account or not.

And I should say, too, that these online payment services are things like PayPal, Venmo, and Cash App. But because we're focused on these non-bank online payment services, this does not include Zelle.

And so, in 2023, we see that nearly half of all banked households are using these products which is much -- a much higher rate that we see among underbanked households or among unbanked households.

For prepaid cards, we see kind of a flipped pattern where, again, we see in 2023 about one in five unbanked households are using prepaid cards, but far fewer banked households are using these products.

You can see here the longer-term trend in the use of prepaid cards.

However, I'm going to focus on the most current two years because between 2019 and 2021, the way we asked about prepaid cards changed.

But we do see what appears to be a

slight decline in the use of these products.

So, kind of a logical question would be, what is it that households are using these two products for?

So, looking again at non-bank online payment services, focusing on the top three sets of bars here, these are what we consider to be core financial transaction purposes that people might be using these products for and these kind of reflect the functions of a bank account.

So, these are paying bills, receiving income, and saving and keeping money safe.

And what we see is that unbanked households that are using these online payment services are using them to fulfill these core financial needs at much higher rates than we see for banked households.

With the majority of unbanked households using these services, using them to pay bills.

And when we look at these non-core types of transactions that people may be using these for, we see very similar rates between banked and unbanked households, with the one exception being making purchases in person.

And so, this indicates that unbanked households are really using these kind of as a sort of substitute for a bank account.

We see a similar pattern here with prepaid cards where, again, unbanked households are most often using them for these core purposes where the majority of unbanked households are using them to pay bills and to receive income and a large portion are using them to save or keep money safe.

Similar to what we saw in the last slide, for these other non-core transactions, both banked and unbanked households are using prepaid cards in similar fashions with unbanked households, again, using them more frequently for in person purchases, although this difference is less stark than on the previous slide.

So, moving back to this cash only unbanked group that we started talking about, since we now have kind of discussed the components here, we can see that about a third of unbanked households use prepaid cards and/or non-bank online payment services, leaving two-thirds of unbanked households being cash only.

And so, this is about 2.8 percent of all U.S. households that are in this cash only unbanked group.

And so, by using these online payment services or prepaid cards to conduct financial transactions, the one-third of unbanked households gained access to electronic payment networks.

But these cash only households are excluded from them.

So, a question then would be, who are these cash only unbanked households?

And so, we see that income plays a huge role where one in seven households that make less $15,000 a year are cash only unbanked households.

And this declines quite rapidly in

income where households making $30,000 or more just about 1 percent of these households are cash only unbanked.

We see a similar pattern for education and also highlight that among -- there's some stark racial and ethnic differences as well with Black and Hispanic households being six times or more as likely as white households to be cash only unbanked.

So, now we'll shift gears a little bit and talk about some non-bank transaction services and these will feed into our discussion of underbanked households in a little bit.

So, first, on the left, we can see the trends over the past decade in use of non-bank money orders.

And we see that the rate of use has declined by about half over this period. Within 2023, about one in four unbanked households having used non-bank money orders much higher than for banked households where we just see a use of about 7.2 percent of these households.

And then, looking at non-banked check cashing, we see a similar decline over this past decade of a little bit more than half here.

And for unbanked households in 2023, less than one in five of these households are using non-bank check cashing. And that's much higher than among banked households where we just see two percent.

For money transfer services, we started asking about these in the previous survey in 2021. And we don't see much change in the rate of use over these two survey periods.

In fact, the numbers that we see here are statistically indistinguishable between the two years.

The thing to point out, though, is that we see a similar pattern where unbanked households are much more likely to be using these services.

And I'll say non-banked money are things like Western Union, MoneyGram, Walmart Money Center and the like.

So, again, kind of thinking about how households are using these services, for non-bank money orders, we see that the majority of all households that use them are using them to pay bills.

However, this is even higher among unbanked households that use money orders with more than 90 percent of them using them for bill paying purposes, which, as you may recall, is one of the core financial transaction types.

And then, for non-bank money transfer services, we see, again, that unbanked households are using them more for this core purpose of paying bills relative to banked households.

They're twice as likely as banked households to be using them for bill pay purposes.

I'll also point out that for sending and receiving international remittances, we see higher rates among banked households relative to unbanked households, although they are pretty similar.

So, now, we're going to talk a little bit about the underbanked and kind of the idea here. So, underbanked households are those that have a bank account, but they look outside of the banking system in order to meet core financial needs and this often comes at greater expense to these consumers.

So, the way that the FDIC defines underbanked households is that they proxy for this kind of behavior by considering households underbanked if they use at least one of eight different non-bank financial services.

So, included in this are three transaction services that we talked about, the non-banked money orders, check cashing services, and sending or receiving international remittances.

And then, there's five alternatives to mainstream credit here that are included as well.

So, that's rent to own services, payday loans, pawn shop loans, auto title loans, and tax refund anticipation loans.

So, a household that has a bank account and uses at least one of these eight services is going to be considered underbanked.

And a household that has a bank account and uses zero of these eight services is considered fully banked.

So here, we can see that about four out of five households are fully banked. One in seven households are underbanked. And one in 25 households are unbanked.

And so, these underbanked households are kind of between banked households and -- between fully banked households and unbanked households in these extent to which they use banking services to fulfill their day-to-day financial needs.

And the underbanked households also provide banks an opportunity to provide additional services for already existing customers in order to better meet their needs.

So, who is underbanked? So, similar to what we saw with unbanked households, we see that income plays a role, although, you'll notice that the differences between -- the differences are not quite as stark as they were with unbanked households.

Similarly, with education attainment, so households -- one in four households that do not have a high school diploma are underbanked and one in ten households that have a college degree are underbanked.

Age plays a role here, with younger households between 15 and 24 years being twice as likely as older households 65 and older to be underbanked.

And we also see strong racial and ethnic differences with Black and Hispanic households being more than twice as likely to be underbanked as white households.

So, both fully banked and underbanked households have bank accounts.

And so, we might wonder if there are differences in the ways that they're accessing these accounts.

And so, what we see is that for the primary method that households are asked -- are accessing their accounts, underbanked households are more likely to use mobile banking to do this, and they're about half as likely as fully banked households to use online banking.

Looking at use of mainstream credit products among fully banked and underbanked and unbanked households, we see that both fully banked and underbanked households typically -- most of these households are using traditional credit cards compared with -- among unbanked households, just one in ten.

As you might recall from earlier, the first six of the sets of bars here are products that go into mainstream credit. And these are important because these are things that are reported to credit bureaus and go into making credit scores.

And so, households that do not have mainstream credit may -- are more likely to be unscored and kind of excluded from a bunch of credit markets.

And so, we see that both fully banked and underbanked households are unlikely to not have mainstream credit. But four out of five unbanked households do not have mainstream credit.

So, kind of in the ways that fully banked and underbanked households approach credit, they appear to be more like banked households than like unbanked households.

Looking at buy now, pay later and crypto, the new questions that we asked about this year, we see an interesting pattern for both of these in that underbanked households tend to use them more frequently than either fully banked or unbanked households.

And I'll also kind of, as a reminder, point out what we heard earlier from Garret, that nearly everyone that's using crypto is using it as an investment. And that's true also here for underbanked households as well.

And underbanked households, as we've

heard from kind of how we're defining them, they have to use -- or they use at least one of eight different non-banked financial services in order to be considered underbanked.

And so, it may be that these households are more open to using other emerging non-bank products like buy now, pay later, or crypto than either fully banked or unbanked households. And that could be part of why we're seeing this difference.

Now looking at non-bank online payment services and prepaid cards among underbanked households as well as fully banked and unbanked households, we see that underbanked households are slightly more likely than fully banked households to use online payment services, although both are much more likely than unbanked households to use them.

For prepaid cards, we see that underbanked households kind of fall between fully banked and unbanked households in their rate of use of these products.

And before wrapping up, I want to quickly overview what we talked about in these two sections. So, there's real diversity in the way that households conduct their financial transactions.

As an example, half of U.S. households are using online payment apps, but only a fifth of unbanked households. And the ways that banked and unbanked households tend to use these differ with unbanked households seeming to substitute these products for a bank account in order to conduct their basic financial transactions.

As we talked about earlier, other unbanked households don't use these products at all. And so, we consider these households to be cash only unbanked households. And they're kind of left out of a lot of these electronic payment networks.

And, additionally, we see that underbanked households appear to have a greater willingness to use these other emerging products like buy now, pay later and crypto.

MS. LEE: Thank you, Jonathan. So, we'll take a pause here and allow for some questions of our survey team, if you have any.

I'll give you guys a moment to think about this. But I can start with a question.

So, Jeffrey, the unbanked rate this year was 4.2 percent and last time it was 4.5 percent. Would you say that the unbanked rate has bottomed out?

MR. WEINSTEIN: Yes, thank you, Yan. So, right, yes. So, the unbanked rate is yes, 4.2 percent. It's similar to what it was in 2021.

However, as we did show, unbanked rates remain high in 2023 among certain populations, Black, Hispanic, American Indian or Alaskan Native, working also with a disability, single parent households, households with less educational attainment. And, in some cases they remain much higher.

So, there definitely is room for improvement, especially among certain segments of the population, those with high unbanked rates, the ones we discussed, and also other segments that are discussed in the report that we didn't present here today.

MS. LEE: Thank you.

MEMBER CALHOUN: This is always an amazing survey and very enlightening. And, thank you for your presentation.

I have a couple of kind of nerdy maybe questions about it. So, one is, one goes to the factors examined.

And, did you look at the impact of wealth and these behaviors in distribution?

I think, the survey includes balance sheet information, the overall survey's consumer finance asked people about their asset levels. And, we know that there, I mean, that is one of the great divides by race in our country.

Even if you look at same age, same income, there are vast disparities, for example, in wealth between Black and white households. And, that's just a huge factor that profoundly affects financial behavior, financial well-being.

So, one is, a suggestion if you haven't done that, to slice it also based on wealth, which I think, is oftentimes even more important than income in looking at this.

The second is, the challenge that this is a report of the survey results of a lot of the characteristics that are related to each other so that you don't know and let me just give an example. One of them is, if you look at age, there are behaviors that differ by age. But, age also is heavily correlated with income and with wealth.

And, I don't know if you all tried to run correlations and controls in your analysis to tease out where you don't know if the driving factor is the age or the income and wealth changes that come in the different age groups.

And, that cuts across a lot of these categories. It would be nice to have, I mean, you all have such a brilliant research team, to have the benefit of your deep dive into not just what are the number, you know, results that we got today, but your take on what are the causative factors?

What are the ones driving? And, it's a variance on the wealth, a very difficult issue, because almost all the factors you've got up there overlap and are correlated with each other.

So, you really, it's very hard from just the bare numbers to know which are the driving numbers and which are just reflecting the correlation among the different numbers.

So, this would be two suggestions for the wonderful work that you do.

MS. LEE: I think Jeffrey can answer that question, right. Because we do control for some of the reasons why the unbanked rate dropped.

MR. WEINSTEIN: Right. So, for -- when we look at the unbanked rate, we do look at, you know, as you mentioned, we have a lot of controls for income, education, age, other ones we didn't talk about, like home ownership and geography, we talked about a little bit.

So, we do that, for the unbanked rate we do really want to understand, well, it fell by about half from 2011 to 2023. What percent can just be explained by, you know, basic socioeconomic characteristics?

Income, in this case it was income, education, employment status, and home ownership. And, it was about two-thirds of that decline, was explained by those four factors.

And then, we also found out when we added in other demographics like age, and disability status, race, ethnicity, household type, and marital status, that actually didn't move the needle that much.

So, and of course there's, you know, issues with depending on the order you put things in, and a lot of stuff is correlated. But, at least in that analysis, you know, over and above the socioeconomic characteristics, it didn't look like the additional demographic characteristics were associated with an additional change in unbanked rate.

MEMBER CALHOUN: So, that's helpful and that's a great example of what I'm talking about. Is if you have a chart up there showing marital status and parenthood status, and the differentials, but those obviously correlate very heavily with income wealth.

And, you don't know if status or the correlated wealth and income is driving the differential.

MS. LEE: Good question. Thank you. Edward?

MEMBER DEMARCO: And, just building on this exchange with Mike, which I think, was really very helpful. I mean, the slide in this that jumped out to me, I think, goes with this, is on slide 34, where you're looking at the cash only unbanked rates.

And, you see far more dramatic movement in cash only unbanked, just in moving from having income less than $15,000, to $15,000 to $30,000, then you do in terms of looking at racial differences.

So, income and education in these socioeconomic factors really, you know, stand out in a slide like this. And so, you know, I think, that that just goes to some of the points that Mike was making.

The other question I'd ask, I mean, so you've got sort of the core purposes of, you know, of these different services and make payments, receive income.

And, have you in the receiving income side, and some of this is, or some of these households it's going to be driven a lot by receipt of government transfer payments. Have you looked at how the receipt of such payments actually influences whether such a household is banked or unbanked?

Because government's got different ways of providing this, prepaid cards being one. And, there's probably some association between how a government conveys income and then what the household does with it upon receipt.

MS. LEE: Again, Jeffrey, do you want to take that question? Because we do ask about receipt of income, government regular income.

MR. WEINSTEIN: Yes. So, we did -- so, in the 2021 survey, we did ask about transitions into and out of the banking system, and whether the receipt of a government benefit payment, in that case, you know, it could be unemployment benefits or a Covid stimulus payment at that time, whether that affected somebody transitioning into the banking system.

And, we did, we did find that that was actually quite a big factor that could explain quite a big portion of households that had been unbanked and then became banked as a result of receiving this stimulus payment.

I guess, with the pre -- but, you're asking specifically about like, prepaid cards and online payment services?

MEMBER DEMARCO: I was asking a little bit more about sort of regular ongoing government transfer. Not the temporary things like unemployment or a Covid stimulus.

But, a disability payment, you know, or something from Social Security, and there's other types of ongoing transfer payments. And, those can be received a number of different ways.

They may, you know, they tend to be regular. But, they also tend to be relatively small dollar amounts, which goes to somebody's income figure.

MS. LEE: Jonathan, you have more to add?

MR. PRESLER: I guess, I don't think in the current survey that we distinguish between these different types of income receipts. But, it's something that is good to think about for future.

Thank you.

MS. LEE: Brandee?

MEMBER MCHALE: Good morning. Thank you so much. So much, such important data, I just, one reaction is, it's important to not just publish it, but to really make sure that it's getting out there and being used.

And, I just would encourage the FDIC team to, if there's an opportunity to get on the road and to share this at other forums. We shouldn't be reinventing the wheel. We should be using this as the primary source data.

But, two things that I want to ask about. And, they might be related. One is, I'm curious to see, are people moving in and out?

I see that the unbanked number is going down. But, the underbanked are still to me that can also be a transition category. Am I -- my second piece then relates to that.

Is there any question, I couldn't see it, related to, have you been the victim of a fraud event? Or, have you been involved in a fraudulent event?

Because I suspect that if fraud is on the rise, it's changing consumer behaviors and certainly impacting trust.

MS. LEE: I'll take a stab at this,

answering this question. So, we didn't ask that in this particular survey.

But, in terms of trust, in the 2025 household survey, we are going to introduce new questions that try to impact what trust means. So, for example, you know, that's the second most cited reason why folks are unbanked, right.

But, it could mean different things. For example, it could mean that you don't think banks necessarily treat people fairly.

Or, you don't think that fees are communicated clearly. Or, you can think that perhaps my money is not protected, right?

It could mean different things. And, for sure, you know, when we did our cognitive testing of the 2025 instrument, the situation of fraud came up very, very frequently.

That's definitely a very salient test. And, we're thinking about that for the future.

MEMBER MCHALE: Thank you.

MEMBER PHILLIPS: Good morning. Thank you all so much for your presentations.

So, I have a couple of comments and questions. Building on the question around types of payment, not just looking at government payments, but also types of employment and whether or not you asked about employment type.

So, at SaverLife we know one in three of our members files a 1099. And, how you get paid, is obviously makes a big difference in how you use banking services and how you use also nonbank financial services.

So, I was also curious, and this is just a theory that perhaps people in non-metro areas maybe more likely to be self-employed, which may drive people more likely to use in branch services.

So, I think employment type has a lot to do with the relationship that people have with the banking sector. Also, usage and access to direct deposit also makes banking more or less useful to people in terms of how quickly you are able to receive your income payments.

The second question I had was, you

know, in this kind of era of financial technology, whether or not we're ex -- you're considering, FDIC is considering expanding the definition of underbanked and expanding the types of products, or if you already have?

For SaverLife members we know about 17 or so percent are using cash advance products, sometimes referred to as earned wage access, early wage access. Fewer are using them through employers, but a lot are using the direct products.

So, those I would consider to be nonbank financial products and services, particularly in the credit space. And so, it would be interesting to ask about people's use of those and how they view them in the financial industry.

MR. PRESLER: Yeah. I think, so, kind of respond about the underbanked piece. And so, we're continually looking for ways to kind of improve our definition of that.

And one of the things that we're

looking at for 2025, is thinking about these core functions of a bank account like we were taking about on some of these slides.

And, whether consumers are kind of looking elsewhere to fulfill these core needs. And, kind of thinking about this function-based approach rather than a product-based approach.

And so, a draft of the 2025 instrument is, will be published in late October and is available for public comment and kind of has some of these other ideas involved in it.

MS. LEE: So sorry. That will be our last question. But, I did want to continue with that answer.

So, we did consider earned wage access for this 2023 survey. But, when we tested it, not enough households actually knew what that was.

So, there wasn't enough understanding of this point, it was not at the most valuable. But, that definitely was on our radar.

And then, to your question about

understanding employment status and other factors, ideally, we would like to take a household survey and connect it too perhaps, administrative data within the census, and learn more about these connections that you're suggesting.

That was the last question. And, we'll move onto implications of our household survey findings.

So, before we begin actually, could I get the clicker, please? Oh, actually, place that there, that's fine. Thank you.

I thought I would summarize some of our findings from our survey team before we move onto implications. And so, we think there are basically three messages that we want people to take away from today.

And first, is that there are long term improvements in the U.S. unbanked rate and improvements in economic inclusion. So, for example, we see that the unbanked rate has halved since 2011 for all households.

And, there's dramatic decreases in the unbanked rate for households that have historically been unbanked, for example, Black, Hispanic, and Native Indian households.

And, there's also an increase in access to mainstream credit with 15 percent of households having a mainstream credit compared to 2017, the last time we asked this question, where it was at 20 percent. So, big improvements but still disparities.

The second message that we wanted people to take away with, is that there are increasing options to conduct financial transactions both within the banking system and outside the banking system.

So, for example, about half of U.S. households now access, their primary way of accessing their bank account is actually through mobile banking. And, we see that most households have smart phones, including 72 percent of unbanked households.

And, we see that half of U.S.

households now also use nonbank online payment services, for example, your Venmo and Cash App kind of services.

But, at the same time, two-thirds of unbanked households remain cash only. So, they are not actually using some of these services.

So, taking that all together, what we want people to come away with, is that there's a lot of diversity in these contexts that people are coming from. So, we need to take that into account as we think about strategies for economic inclusion.

So, I just wanted to kind of give the lay of the land before we turn it over to Susan and Yasmin to kind of interpret these findings for us in ways that are useful for economic inclusion.

Go ahead.

MS. OSAKI: Thank you, Yan. Good morning Chairman and Committee Members. Let me start us off with some reflection about the 2023 household survey. And then, I'll pass it over to my colleague, Susan.

So, as you've heard, the FDIC has been conducting this survey for a decade and a half. And, back in 2009 and as Jeffrey pointed out, in those initial years, the unbanked rate was roughly around 8 percent.

And now, it came down and we are half of that right now, which is lots of improvement as we've been hearing.

Through all this time we wanted to, after all this time, we wanted to step back and think, okay, what do unbanked households look like now?

And, how are they the same or different from the past? Well, it turns out that they are, they look very different now.

And, that is what led us to our first implication. And, it is a fact that the composition and characteristics of unbanked households have changed dramatically.

And, as a result, economic inclusion strategies that may have worked in the past, might not be as compelling today. So, what do unbanked households look like now?

Well, compared to ten years ago, unbanked households are much older. Ten years ago, a large portion of them were on the younger side.

About 40 percent were under age 35. And only a quarter were age 55 or older. Which, we can all agree is still very young.

But, aside from that, but younger households have by far the highest unbanked rate compared to the older cohort. So, it was a good bet to focus a lot of our economic inclusion efforts on these younger households.

And, in 2023, the distribution almost completely is the opposite. Households under age 35 represent only a quarter of the unbanked.

And, instead, we have this sizable portion of unbanked, around 40 percent, that are over age 55. Even households over age 65 now represent 20 percent of the unbanked, which is double their share of ten years ago.

But, just to be clear, that doesn't mean that unbanked rates got higher or a lot higher for older households. In fact, households over 65 have the lowest unbanked rate.

But, what it means is that younger people have gotten more banked. There are fewer young people that are unbanked now that they were ten years ago, which is really good news.

And also, older households represent the larger share of the population. So, they also make a larger share of the unbanked population.

So, there has been quite a shift in terms of the age distribution of these unbanked households.

So, another aspect that is very different is unbanked households' connection to technology and how they're using it for core financial transactions. And, we've heard that earlier in my colleagues' presentation.

Access to smart phone has doubled in this time from ten years. And, now, one in five are using these online digital payments, or like Venmo, PayPal, Cash App.

And, the large majority of these unbanked households are using it for their core financial transactions to receive their income, or to make bill payments, or to stay, to keep, just a place to keep their money safe. So, very much bank-like.

But then, on the other side of the spectrum, we have heard that an increasing majority of unbanked that appear to transact primarily in cash. And, we've heard a lot about that also earlier.

Jonathan mentioned that two-thirds of unbanked report not using prepaid cards or any of the digital payment providers. So, for some people, they're using cash or paper-based instruments.

And, as also Jonathan mentioned, these cash only unbanked households have all the different attributes, and they're very different from the other unbanked who are using the technology.

Cash only unbanked are disproportionately age 55 or older. They're more likely to be Hispanic. They're also less likely to have an account in the past and are also less interested in having a bank account.

So, it is very apparent that we are looking -- we're not looking at the same population of unbanked from the past. And, we might need to think about then, how our economic inclusions efforts then need to adapt.

For example, given the age shift messaging from paying for our focus on their youth-centric themes, may need to be supplemented with messaging in a broader range of age groups.

And, the fact that within the unbanked there are such stark differences in how they engage with financial services, it suggests that there is also the need of more distinct and targeted strategies that are suitable for each segment.

But, for unbanked consumers that rely

on the non-digital payment services for managing their money, it might be more effective to focus on making aware to them about this robust mobile banking app and bank P to P type capabilities like Zelle.

But, for those who predominantly transact in cash, the messaging should probably be more aimed at increasing trust in banking, more outreach in Spanish, given the larger concentration of Hispanics in this segment.

Also, ensure that materials that are provided are very simple and clear instructions for opening and managing an account, because this segment also has a lot less experience with banking.

And, as unbanked rates continue to hopefully decline over time and engaging the remaining households might be more challenging and require more nuance and targeted approaches. And, that makes sense for each of these segments.

And, for that, it's important to continue to monitor and understand the underlying characteristics of these consumers.

And, with that, I'll turn it over to Susan.

MS. BURHOUSE: Thank you. This is the end for real. You've reached the last of us.

And, Yasmin just walked us through a deep dive on the unbanked and their changing characteristics. And, these next two implications highlight some additional groups with diverse and evolving needs.

First, I want to focus on new technology users. And, this includes older households and others who have been slower to adopt technology for financial services.

Early on, as financial technology was just becoming a normal part of the consumer banking experience, we heard that banks at that time were really focusing first on the early adopters.

And, you know, that made a lot of sense at that time, banking apps and websites were initially designed and marked with younger, higher income, more tech savvy, often fully banked groups in mind.

But now, the later adopters are showing up to the party. And, they're at some risk of being left behind if banks and other stakeholders don't recognize that they're here now, they're newly able and often willing to use mobile banking and similar technologies.

Now, as we've heard, the vast majority of U.S. households, nearly 90 percent, do have access to smart phones now, because smart phone ownership and use in and of itself doesn't seem particularly noteworthy these days.

But, I think, what is noteworthy is the growth rate in smart phone use among certain sub-populations, especially those that previously were less likely to have access.

And again, for example, among older households, smart phone ownership is 76 percent now. And, that rose sharply from 66 percent just two years prior.

With this increase in smart phone

access, has come an increase in mobile banking. But, those two things aren't necessarily increasing hand in hand.

Now, about 80 percent of all households with a smart phone have used mobile banking in the last year. But, only two-thirds of households with incomes under $30,000 and just over half of households age 65 or older with a smart phone, have used mobile banking.

So, in these cases, there really seems to be clear opportunities to engage these groups with the technology. With that, we would need to recognize that these newer technology users might need support as they transition to more tech forward ways of transacting.

And, they might benefit from dedicated outreach, targeted education to increase their awareness and comfort with mobile banking apps.

We'd be introducing them basic low risk features like low balance alerts, or the ability to check your balance on demand. These could be good simple starting points to demonstrate the value and convenience of financial technology.

Importantly, beyond older households, technology can increase access for other households with challenges that could compromise access. You know, such as those with nontraditional work hours, or limited English proficiency, or mobility constraints.

So, as these and other groups gain access to technology, there's real potential for banks to engage these later adopters, help them use smart phones to sustain and deepen their relationships.

And, I think it's important to recognize that this group of technology users is really growing and diversifying recently. And, we don't want to exclude groups who are here now and ready to use that technology.

Okay. One more set and this really for real will be the end. I just want to talk briefly about households that are outside of the credit mainstream.

As we've heard earlier in the presentation, more and more households are accessing mainstream credit, which is clearly a very positive development.

But, I think, it does make it both more challenging and more important to understand the composition and needs of these households that don't have mainstream credit and how to develop safe and affordable credit solutions that will work for them.

The survey data show us that while the use of mainstream credit is up a sizable minority, nearly 16 percent of U.S. households do still lack credit access.

Fortunately, the data also give us some information that can help us understand the characteristics of these households, so that can be used to target strategies appropriately for them.

The households with no mainstream credit are distinctive in a couple of ways. First, less educated households are over-represented among households with no mainstream credit. About one in five unbanked households with no mainstream credit have no high school diploma.

And, another 40 percent had a high school diploma but not college education. So, I think, this highlights the need for products that are clearly structured, that are easy to understand, and that comes with consumer friendly, straightforward communications and outreach materials.

In addition, many households without credit access may be financially vulnerable. Just over half of households with no mainstream credit have income less than $30,000.

And, about one in five had fallen behind on their bills. So, given this potential financial fragility, I think, it's important to offer credit products that allow for credit building, while also minimizing the risks of financial harm.

Finally, a sizable minority of

households without mainstream credit, nearly a third, don't have smart phones.

And, this implies that technology-based credit products like small dollar loans that you can only apply for if you're using an app on your phone or technology-based messaging and marketing, those really might not reach a good portion of households who need it the most.

For those households, I think, multi-channel strategies might be more inclusive than tech first credit solutions. And, I think, we all know this, but it probably still needs to be said, just having access to credit doesn't guarantee long term financial resilience.

We know that people can run into credit problems. And, once you develop a negative credit history, it really hurts the ability to get credit later when it's really needed.

So, connecting consumers with credit also means assessing that they can repay that credit and helping them build credit safely. Of course, that's easier said than done.

The work in the credit building space is getting even more complicated these days. There are an increasing number of credit products being introduced by both banks and nonbanks.

And, it's really important for consumers and lenders and all stakeholders to understand the implications for building credit. In some cases, we know that loans originated by nonbanks are not being reported to the national credit bureaus.

So, in those cases, the loans aren't helping consumers build a credit history. And, in other cases, it's just really unclear to people how and whether the timing and types of credit being used will impact the credit history or credit score.

I think, both lenders and consumers lack some clarity on whether the occasional use of things like short-term small dollar loans, you know, how will that effect their credit scores?

Will the impact vary by consumers with

different types of credit profiles? You know, in many cases that's a bit of an unknown.

In addition, we know that credit writing is evolving to consider more data sources like consumer cash flow data. But, consumers and other stakeholders again, aren't always clear on the potential impact, both positive or negative that that type of data can have on consumer credit standing.

So, transparency on all of those issues would really be beneficial both for lenders working to design and deliver credit products, and for consumers, especially those who are coming into mainstream credit for the first time.

So, those are some of the thoughts that we have drawn from the latest survey data. But, as you guys have time to discuss now, and throughout the day, we'd certainly love to hear your thoughts and conclusions from the data as well.

And, with that, I'll turn it back to

Yan.

MS. LEE: Thank you, Susan and Yasmin for those very useful insights. So, we're going to open up the floor again for questions.

And, I believe Wade and Marietta and then Jennifer had questions. So, we'll have time for about three or four questions before we end.

MEMBER HENDERSON: Thank you so much. Mine is actually a comment more than a question.

But, let me first begin by joining my colleagues in commending you for the thoroughness and comprehensive assessment that you've provided with the survey, and the quality of the presentations this morning. Really quite excellent.

I want to focus on something which has been touched on, but not really mentioned extensively. And, that is the racial disparity and access to banking information.

I'm thrilled that the population of the unbanked has decreased over the past decade. It's a reflection of the work of the banks, the

FDIC, and communicating the importance of access to banking. And, it has had a real impact, and it's paid off.

But, the racial disparity that existed at the start of your survey, continues to this day, largely in the same percentages that existed when the survey began in 2009.

It suggests that there is something systemic taking place that continues to keep these numbers in an artificially inflated manner or structured manner. And, it's deeply troubling.

For those of us who are committed to closing the racial wealth gap, which is seen as a proxy for societal equality, the fact that these numbers have not really decreased over time is deeply worrisome.

It really suggests that there is a need for a deeper dive, and perhaps an interdisciplinary assessment of what structural factors come into play to keep these numbers at the same percentage levels. This goes beyond the survey.

So, in one of the recommendations that I hope you'll consider for the future, is putting together some sort of interdisciplinary group to examine these issues in greater detail. It would include obviously, the FDIC, and the Treasury Department, the Federal Reserve, and the CFPB, and the Department of Education.

But, looking at these issues more closely, disaggregating this data in a way that would allow us to engage in a more comprehensive assessment that may lead to policy recommendations that over time can help reduce that racial disparity.

To me that is especially important, because I don't think, and while the survey is a snapshot of what exists, obviously you've done that extremely well.

There needs to be a set of recommendations about how we address these issues that clearly goes beyond the survey. It goes beyond what the FDIC can do.

But, it's something that I hope you will stimulate by recommendations to move in this direction. Thanks.

MS. LEE: Thanks Wade. I think, you're talking about the why. And, the survey is really great at documenting the what thing for sure.

Marietta?

MEMBER RODRIGUEZ: Two things. One, I appreciate there's a lot of rich data. I appreciate the work, put it out there and analyze it.

I realize I probably wasn't part of this survey. But, I've seen it before. For those that are utilizing nontraditional banking channels to pay bills, to tax anticipatory loans, those are really, come with some pretty hefty fees.

And, I wondered if there was some sort of analysis that can be done to estimate how much money it's really costing that population to utilize those services versus a mainstream bank channel?

That could be a helpful selling point. And then, I'm really struck by the age differential that's happening over, that you've pointed out.

And, wondered, particularly with the population that is less likely to have a bank account and work in cash, there's an opportunity in marketing and outreach, to target both young and old at the same time.

I wonder if there's an inter-generational opportunity within the household where you could have a younger member of the household utilizing more mainstream bank products that could influence the older?

Because it pivots on that, or it banks on that, whatever is that trust issue within a family member.

So, those are my questions.

MEMBER TESCHER: Actually, we do a calculation every year of the amount of money people are spending on two thousand different financial products and services, including some of the ones that you mentioned.

And, it's really to give recommendations for them if they think about this survey. But, in the interim, I'm happy to share what we have with you.

I have a bunch of small things that I'll save for offline. I think, in addition to commending you just for this work, I said to Keith last night, given how long the survey has been going, and the need to continue to ask some of the same things to be able to see the trend lines, it's really remarkable at how you've been able to keep it so fresh and modern and changing with the times to help us see how things are shifting.

People don't always do that well. And, you have done that exceptionally well.

And, in the recommendation section, which I also really appreciated, it's kind of the what are we seeing and what might this mean, you mentioned a couple of times, particularly on the credit section, this issue of financial fragility.

And, it sounds like not only are you basing financial fragility on incomes, but it sounds like you've got some other questions you're asking. Like you mentioned paying bills on time, some other things.

And, I think, it would be interesting to hear a little bit more about that, because particularly now that we have included nearly everyone in the country, more work to do for sure, to reach the very last mile.

But, you know, we've kind of done inclusion. And yet, people are still financially fragile.

And, we know that bank accounts aren't magic. But, there's lots of other factors. But, the question then becomes, okay, what else?

If we want to make sure that the financial products and services that people are using are actually driving the outcome we seek, which for us would be financial health and well-being, what data might we be collecting, should we be collecting?

What additional questions might we ask to help draw out that connection?

And, as I'll talk a little bit more about in the member roundtable, there's now a global shift from inclusion to health, to outcomes.

And, given the fact that the U.S. has been such a leader on the data side of things, I feel like there's an opportunity here to continue to play that role.

So, offline I'd love to hear a little bit more about what, it sounds like some additional questions you're already asking about that financial fragility.

Thank you.

MS. LEE: One last question from Jonathan.

MEMBER MINTZ: Mines a compound question. But, I'll sneak it in.

I think, you can do this. And, let me just say, CFE Fund, we're household serving groupies. So, thank you, thank you, thank you.

Can you tell from your data who is banked newly and who is unbanked newly? And, can you chart that over time so that we can get a sense of turn?

MR. WEINSTEIN: Yes. That's a great question. We can do that. So, we ask, just going to those results, yes, so we did ask about transition, like you were asking.

So, for households that are unbanked, so they currently, or at the time of the survey did not have a bank account, we asked whether they had ever had an account. And also, and, if they did, whether they had had an account in the past 12 months.

And also, if you currently are banked, we asked you, was there any time in the past 12 months when you did not have an account, when no one in your household did.

So, we can get these estimates of like, recently banked, recently unbanked, longer term unbanked, and longer term banked.

So, and so, we have those in the report. I can just say that, you know, the great majority of households, almost 90 percent, are longer term banked.

So, they have an account at the time of the survey and continuously over the past year. And then, about 6 percent were recently banked. So, they had an account at the time of the survey but did not at some point in the past 12 months.

And then, on the unbanked side, about half a percent were recently unbanked. So, did not have an account at the time of the survey, but at some point in the past 12 months.

And then, 3.7 percent, so the majority of the unbanked were longer termed unbanked, meaning they have an account at the time of the survey, but did not have one in the past 12 months.

So, that means they may have never been banked. Or, they were banked but more than 12 months ago.

MEMBER MINTZ: That's great and helpful. And, it would just be interesting to see how that compares to previous years so that we can get a sense of how much turn is normal turn.

MR. WEINSTEIN: Um-hum.

MEMBER MINTZ: And, how much turn maybe represents some progress. I'm done. Sorry.

MR. WEINSTEIN: Yeah. We can look at, we can look at -- yeah, we can look at some of that.

So, it's actually been pretty consistent that about half of unbanked households had an account at some point in the past. Whatever length of time.

And, it's also been consistent that about 10 percent of unbanked households were recently unbanked. So, you had an account at the time of the survey, or I'm sorry, did not have an account at the time of the survey, but had an account at some point in the past 12 months.

In terms of recently banked, we haven't asked that question as frequently. And, we did ask it in the '21 survey.

But, it was about the -- it was about a 15-month window, because we wanted to look at between March 2020 and June 2021, to get, you know, the beginning of Covid.

So, but, we have asked that quite a bit.

MS. ORTIZ: All right. Okay. Thank you everybody. We're going to take a short break, ten minutes. So, I'd like everybody to be back here at 10:50. All right.

And, then, we're going to have the member roundtable where we'll have an opportunity to kind of continue the dialog around the survey with that. I'm particularly interested in hearing everybody's individual reactions and reflections on how this affects their work in their community.

I want to thank the panel very, very much. It was an excellent presentation.

(Applause.)

MS. ORTIZ: Thank you so much. See you back here in 10.

(Whereupon, the above-entitled matter went off the record at 10:41 a.m. and resumed at 10:56 a.m.)

MS. ORTIZ: Thank you, everyone. The Chairman is finishing up a call, but we're going to get started with the member roundtable, the moment you've all been waiting for.

Okay. So this time we've sort of asked folks to consider three questions as you considered the survey results and implications. And I'm going to ask folks to kind of try to keep their remarks to five minutes. Mike, Jonathan. We're all friends.

Okay. And I know there was a lot to absorb. There's a lot to think about. But one of the things I think that for this committee and our work at the FDIC, thinking about these things would be really helpful to us in our work going forward.

So what do the survey results and implications suggest will be the most important economic inclusion challenges of the next three to five years? We've heard a few comments in the earlier sessions so I can imagine some of the contributions you all will make on that score. I am really interested in hearing about that.

What else do we need to know to address these challenges that we do not know today? And, again, we heard some suggestions earlier about some potential questions in future surveys or ways to organize the analysis.

And then what organizations, and it can be your own, would be instrumental in solving these challenges and what will they need to do to succeed?

I'm going to start with Steve Antonakes to my left and then we're going to work out way clockwise across the table. Steve?

MEMBER ANTONAKES: Thank you, Liz. Good morning, everyone. I would of course, like to thank the Chairman for again convening this group. I always leave these meetings smarter than when I arrived. I would also like to really thank and acknowledge the professional staff at the FDIC's Division of Depositor and Consumer Protection for their outstanding work.

Unfortunately, I have to depart early today so I will review my initial takeaways from the reports, several of which have already been discussed via the prior panel. And then I look forward to watching the webcast so I can benefit from the other committee members' reactions as well.

For me, my three most significant takeaways are as follows. First, despite the lingering impact of the financial crisis of 2008, a global pandemic, inflationary pressures and 2023 so-called March Madness in which we had a number of high-profile banks fail, the unbanked population since 2011 has been reduced by half.

That is not by any means an insignificant accomplishment and likely a result of the spotlight the FDIC has continually put on this issue, the assisting engagements of numerous stakeholders, a number of which are around this table, as well as was noted the economic and educational progress made by some of the affected consumers.

Additional study in this area on what else has driven this decrease would be most instructive.

Secondly, as Wade noted, despite the progress made, we can't lose sight of the fact that the unbanked population remains disproportionately higher among Blacks, Hispanics, American Indian, Native Americans, persons with disabilities and single parent households.

And third, the impact of smartphones, right? Their accessibility and the resulting significant migration of banking transactions away from branches and even online transactions is truly mobile and is really quite striking. And the numbers are compelling and have resulted as was discussed in the shift in larger percentage of unbanking older versus younger adults.

I will acknowledge I am personally a little bit disturbed to now be a member of the second oldest demographic represented in the slides. But I'm working on it.

So some key questions, you know, what can we do to sustain this progress? What more can we learn from the data in terms of the key factors that have driven not only the reduction in the unbanked population, but the reduction on its reliance on payday lenders, check cashers, money orders?

Given the significant percentage of unbanked that do not want a bank account, can we achieve significantly better results than presented today or should we also, in addition to focusing on the unbanked, focus on the underbanked to ensure they don't slip into an unbanked scenario or developing credit to those individuals as well?

Here is something that I think is

really important and frankly broader, again, as Wade mentioned in the FDIC. But how can the public and private sectors work individually but also partner to drive better quality for education, housing and health care among our most disadvantaged populations because absent this, I think it would be really hard to drive these unbanked numbers much lower than they are today.

Finally, as we look inward, what new products and delivery systems should financial institutions look to develop to provide greater access to existing customers and new potential customers? How can regulators further incent the use of special purpose credit programs, which create additional safe and sound products with flexible ending criteria to better serve historically underserved populations?

We now have two products in this space, a business product and some mortgage products that we have had a great deal of success with. So these are my initial reactions. Again, I want to thank the FDIC for their important work.

Tom is up next, but I will cede my remaining time to Jonathan once he is called.

MS. ORTIZ: Tom?

MEMBER FOLEY: Thank you so much. Thomas Foley, National Disability Institute. Thanks, Liz, and thank you to the Chairman for the opportunity to be here today and thank you to the FDIC and particularly to the research team and the presentations today.

This is just absolutely extraordinary work, which is really important to NDI and the people we serve. So thank you for your efforts. I know that's a huge lift.

So a lot of people have already pointed to this, but this is an amazing time for the bank statistics around people with disabilities. Just to review in 2009, approximately 18.3 percent of folks were unbanked. Today it's 11.2. That's almost a 39 percent reduction in the unbanked rate.

But there is more work to be done. As folks pointed out, people with disabilities are still three times more likely to be unbanked, twice as likely to be underbanked, have access to credit, about half as much as people without disabilities.

But when we were talking about these statistics, I was reflecting that two years ago when we talked about this, the unbanked rate for people with disabilities was 14.8 percent, and, again, today it's 11.2. That's about a 24 percent decrease in two years. So this is an actionable number we can change.

And I was reflecting that two years ago, I can't remember who it was now, somebody asked me, well, you know, 14.8 percent for disability, are we going to be able to get that number lower? And the answer is yes. And it's because of FDIC and a lot of the people around the table today.

But as far as areas to focus on, one of the areas that we will be taking a much deeper dive on within the disability community is disaggregating that data on race, ethnicity and gender because we know within the disability community there are very substantial differences in bank access to credit.

And so I think a number of us have already touched on this, but really making sure that we can come up with nuanced strategies to help people within some of these subgroups not only have access to bank accounts, but what naturally follows, access to credit, access to mortgages, access to the tools to build a better financial future.

So one of the questions on recommendations, is when we dig into this data, I am wondering if there is a way to sort of do a deeper and sort of more sampling around disability. Because one of the things we find is sometimes when we get down to some of these subgroups, for example API women with disabilities, that the N is just large enough for statistical significance, and it can really vary the results significantly from year to year.

So that's one of the pieces that we'd

love to be able to get more data on just to be able to inform some of the policies, some of the programs and some of the outreach opportunities.

As far as partners to help move this work forward, Steve made reference to it earlier. FDIC, CFPB, Treasury, OCC, every single person around this table, it's the people who are in this room and paying attention to this work right now that has resulted in this remarkable decrease in the unbanked rate for folks with disabilities.

And we know that that's just the beginning. Some of the work we've done around financial poaching and financial credit has shown us that when people with disabilities have access to the same coaching, access to the same outreach, that they can have the improved financial outcomes, reduction in debt, increased savings, as their nondisabled peers.

So as we continue to move forward, we want to thank the FDIC, thank the research team, most importantly thank every single person around this table for the partnership and the work you've helped us do to change financial and economic outcomes for people with disabilities.

And I'll jump on the bandwagon. I'll cede the rest of my time to Jonathan as well.

MS. BILONICK: How much do I have, Liz? Is anyone keeping track?

MS. ORTIZ: I'll let you know. Marla.

MEMBER BILONICK: Thank you, Liz. Again, I want to just echo the sentiments around congratulating the team on such a comprehensive effort. It's really mind blowing to see what's captured and the trends. And I am just so appreciative of the information that was shared. So thank you.

I also appreciate, Liz, the prompts that you gave us. So I very rigidly follows those prompts.

So in terms of the most important economic conclusion challenges that I saw looking at the data and then just also reflecting on my own work, to Wade's earlier statement, even with decreases in unbanked households, the disparities between white and other racial and ethnic groups persists.

At the same time, there are concerted efforts underway to thwart interventions that target the unique challenges and systemic discrimination that specific racial and ethnic groups face. And that may even carry over to demographics such as age or gender.

And, I think, you know, when I am thinking about my own work, that's a challenge that I think is completely misaligned. You know, on one hand we have groups that persistently are left behind and yet we are being asked to dilute our missions and, you know, work in ways that do not call out the specific challenges and disadvantages of different racial and ethnic groups in our communities. So that's something that I am grappling with personally.

Second, I think, you know, the data really showed that traditional financial institution are less agile and out of touch with he needs of LMI users. You know, banks are not providing needed products and that's part of the reason why I believe LMI communities are seeking other alternative providers.

And then I was also struck, and I know we talked about this when we reviewed the State of Ohio, but just that distrust was the second highest reason for not having an account. I just was -- I wouldn't have thought that would have been the case. And I think that it would be worth digging into that a little bit more.

Again, I respect that this is about the what and not necessarily the why, but I think that is a question that I would be curious about is sort of why is that and is it based on prior experience or based on some sort of assumptions around our own banks? But I do think, you know, banks really need to meet customers where they are, perhaps conduct more research and development around products and services that are needed.

I thought the focus groups in the

videos or the video were so rich just in terms of observations that people shared. There's so much there. And I know we all have limited time in our day jobs, but that would be something that personally I would find super, super interesting.

Then in terms of what else we need to know, I would like to dig more into the cash only households and how they are operating since almost 70 percent of underbanked are cash only. That was just an interesting finding that stood out in the data.

It clearly presents clear risks to their security of their money and even their personal safety in carrying cash. I would also love to know more about buy now, pay later. In one of the videos someone shared that they were using buy now pay later for their groceries. And that was just astounding to me.

I think of buy now, pay later as kind of like the alternative to a layaway although it's the exact inverse of layaway. But I would think it would be for sort of one time out of the ordinary maybe luxurious purchases that are not part of your normal expenses. And the fact that individuals were using it for groceries to me shows a different angle that's more about smoothing out cash flow variances than kind of this unique one-time thing. So that would be very interesting to learn more about.

And then lastly in terms of something that I would like to learn more about or what else we need to know, the credit usage in underbanked households, it seemed to be more for affording things that are financially out of reach like college or an automobile rather than for cash flow smoothing as mainstream credit tends to be more. And so that I found interesting, particularly because student loans are at the root of so much financial instability for our communities. So that would be something interesting to dig deeper in.

And then lastly in terms of organizations that will be instrumental in addressing these challenges, I think banks have work to do around research and development to make banking more accessible and responsive.

I think there's an opportunity for in-person staff at banks to have sort of a less transactional and more interactive role in terms of shaping the financial habits and experiences of their customers. Again, some of this may be aspirational on my part and maybe even, you know, a dream. But you asked, and so I'm sharing, you know.

I also think it would be completely fair for the banking sector to admit that this is not a segment that they're interested in serving and then allow for other players to take a more active role and perhaps, you know, become more regulated entities or more regulated or even get FDIC insured.

So, you know, given the sector that I work in, I do think that there is a big opportunity for CDFIs, MDI banks, credit unions, CFIs to sort of take the place of banks in offering financial services to, or alternative financial services, to groups that are not accessing traditional banking.

And I'll just share one last final thought is that in my previous -- or my original career trajectory, I was working in international microfinance. And the microfinance movement in Latin America was basically based on banks, what they call the downscaling, which is somewhat derogatory, to sort of a lower tier market. And it turned out to be extremely profitable.

And so I just think there may be a lesson there in history. If it's not in a bank's interest from a goodwill point of view, it may be from a profit point of view. And it's sad that we might have to think that way. But I'm just making the point if there were an interest in really catering to this market, it could end up being a win-win. Thank you.

MS. ORTIZ: Thanks, Marla. Mike?

MEMBER CALHOUN: I'm going to jump in with some quick points here. And I know I'm on the clock by Liz. I join everyone in commending the great work and the progress here.

I think it's important that that progress is built on trust in banks. And that trust is -- the people think that they are going to be treated fairly. No one reads the terms of agreement that we flip through on our phones or, you know, the dozen page deposit agreements or everything. So it really is, can people have that trust?

I commend the FDIC for the work of its Consumer Protection Division, which I think is essential to that. And it's continuing work to monitor third-party bank arrangements, particularly rent-a-bank, which I think really undercut that trust and our hole in it.

The second is that people need clarity and not in terms of agreement. One example that actually I think made some progress many years ago was this so-called Schumer box that people may remember for credit card offers, and it said you have to prominently disclose like five factors, the interest rate, the late fee, the number of payments, like four or five things. Don't give people a booklet, just four or five things. That added some additional clarity there.

I think the big one, and we've talked about it before with this group, is the FDIC insurance. And I know there are some limitations on authority there, but it is still very hard, particularly with these third-party arrangements.

I had a friend call me, as I'm sure everybody here does, asking for advice about banking. And the person was setting up a small business and looking to do their payroll.

And I swear you could not tell from the materials whether or not the payroll deposits would be FDIC insured. They threw in language that made you want to think. They threw in some -- you know, it's going to be deposited in a bank. Bu nowhere was it at all clear. And we know from experience it's not. And so really hammering on that you cannot use the FDIC label without being clear about what is insured and what is not because that is the first thing people look at.

The third thing is banks have done a lot to help meet the unbanked needs. And two of them that they have worked on, and I encourage more, are affordable small dollar loans, which I think the programs have been quite successful and most of the major banks have either implemented or are looking at those.

And the reports are that people usually in a short-term cash crunch are not going to be able to repay it back in a lump sum. And so if you give them a short-term loan, they are just going to roll it over again and again. And we see that with, for example, the earned wage accesses where they are actually structuring the products to encourage that.

So one of their big things is they will, for example, even though you have $500 of earned new wages that you could access, they'll limit you to $500 a day, but you have to take it out in $100 increments and pay an additional fee, including an additional expedite fee for every one of those.

But the average EWA use is two to three dozen per year and half or more of EAW users are using two or more EWA providers, and most of these are unconnected to the employer. They are just apps on the phone that are not tied to your wages. They just label them earned wage advances. So I hope the survey will take that on.

The other big advance, and I'm winding up, Liz, is faster payments. For so many people that makes a huge difference. And we've seen banks, but it's not surprising for the nonbank players. That is one of the lead thing that they tout. The banks need to do more.

I would note that there is currently a petition for rulemaking that has been filed, I believe with the FDIC and the other regulators, to go back and review the payment and hold requirements that are permitted.

And some of these are low hanging

fruit. Like one of the standards, the dollar level for the transaction, hasn't been adjusted for inflation in a long, long time. And just doing that would provide significant relief. So I urge that that petition be considered and look for the opportunities there.

And finally, in terms of the organizations, I think everyone here at this table and a lot more are working on this. I am going to use this to announce a new initiative that the Center for Responsible Lending is doing.

We were blessed on our founding in 2002 with having some leading civil rights leaders who were in front of the game and solved the close connection between civil rights and financial issues. And one of those is Wade Henderson, who continues to serve as vice chair of our board today.

Another was Julian Bond. And he served on the board from 2002 until his passing in 2015. And they and others -- and the other prominent one was John Lewis, stood up against the subprime loans like in the early 2000s when they were widely being sold as inclusion products and the same with payday lenders. And that was hugely influential.

To commemorate Julian Bond's passing -- it will be 10 years next year, we are establishing a Financial Equity Research Institute and naming it for him to focus precisely on these issues of how you look at financial regulation and how much impact that has on this battle. It certainly goes, as you said, Marla, it goes far beyond just financial regulation of how we address overall financial health and financial equity.

MS. ORTIZ: Thank you, Mike. All right. Naomi?

MEMBER CAMPER: Thank you very much. I really appreciate being included on this committee. I know especially for this survey, we're talking about people being banked and so having me where I represent banks of all sizes in that shared goal of getting people banked, I appreciate being here.

I guess the first thing that struck me about the report was a sense of relief that even though it's not considered statistically significant, the further reduction in the overall percentage of unbanked; it didn't go up either. It actually did go down. I know we had wondered post pandemic was that a blip of getting people in as a result of government payments. It certainly feels like that is holding steady, if not going down, and I think that comes as a great sense of relief, at least to me personally, and I think to the banks that was really encouraging.

In all of the takeaways that I'm going to say today, you're going to sense a theme and I'm just reporting what we hear from our members and it's for your consideration as you continue to serve your own communities and what may be the art of the possible.

My personal opinion is that we do best in serving LMI communities when it's done in the business part of the bank, not necessarily in the charitable arms or the have to or else arms of the bank. What we want is an equilibrium where it makes business sense and it is part of the business of banking. For that to be possible, products and services have to break even at a minimum for them to be sustainable for banks.

When I report on some of these for your consideration, Bank On has been a tremendous partnership and success so far with ABA and our members and we're really excited that now we're breaking up towards the 500 accounts available through banks. ABA will continue. We intend to continue pushing our members and encouraging our members to offer Bank On accounts. We have heard from members that they have deep concerns about the financial sustainability of those accounts if the Fed's proposed Reg II changes take effect. We are hearing that from banks of all sizes, those that are subject explicitly to Durbin interchange restrictions and those who are not.

Both sets of banks saw reductions in interchange revenue when the first Durbin rules went into effect and they expect that whether they are exempt or non-exempt that that will be the case with any revisions. So, that is just something, it's a reality check for all of us that many of the Bank On accounts rely on debit interchange revenue to make those accounts sustainable and so keep on an eye on that as something that allows those to be in the mainstream part of the bank.

Number two, fraud is just an explosion. It is so hard for our consumers, our customers and for the banks to get a handle on things. We have a bunch of initiatives we are working very hard. We have, this makes us laugh, our new follow on campaign to Banks Never Ask That, is Practice Safe Checks. So, go to practicesafechecks.com and it really helps. It's a public service campaign to help consumers understand what they can do to reduce their susceptibility to check fraud. Number one is stop writing checks -- Mom, are you watching?

(Laughter.)

We think that banks are the safest place for consumers to be, but it's also important, another regulatory headwind that we are really keeping our eye on is the now final 1033 Rule. Banks have, and we put it in our comment letter, grave concerns about the liability framework or lack of liability framework that goes along with transfer of consumer information and what that means for bank customers, who may not read the fine print when they authorize a transfer of data.

So, that's just important for this community to understand the concerns that banks have about that or the embedded in 1033, the pay by bank point of sale. What does mean? What is the liability framework for that type of payment? Your discussion about faster payments, yes, speed is important and so is certainty. We've seen this again and again, even with checks and hold times and Treasury checks, things that shouldn't be susceptible to fraud, really complicated and when you reduce the hold times, you end up in a situation where something that seems like an absolute, like safe check, unless you have the payee verification framework place. It may raise additional concerns.

Finally, one thing that I think I'd love for the survey to dig into is what does it mean that people don't trust banks or what does it mean about privacy. This comment is not going to be popular around this table, so I'm just putting it out there. We talked to our banks all the time about what are their top issues and their top concerns. They are extremely focused on the implementation of 1071 Data Collection. Their concerns are not just about the compliance burden. They are very concerned about the reaction that they anticipate getting from their customers about what they believe to overly intrusive questions about personal demographic characteristics.

Now, I understand that one of the things that makes this survey so important and so compelling and so useful is the disaggregated data that helps us understand where we still have more work to do. But, it may be that in the context of this voluntary survey, that's where getting that data from people who are opting into the survey, is a really good place to get the disaggregated data.

I think we're going to have to see what happens with the regulatory environment in the coming years, but the more you can do on the survey side to provide that data, I think we will be well served to give banks guidance. Also, teasing out when they say that people don't trust banks or they value their privacy, what are they talking about. Is it how much money do we have or why are you asking me all these questions about who I am. So, that's just something for consideration.

I personally am so grateful to this team for the information that you provide so that our ABA members can do a better job and we really appreciate it. Thank you.

MS. ORTIZ: Ed?

MEMBER DEMARCO: Thanks. I've got three quick comments, just sort of further reflection on the survey results and then quick responses to each of your three questions, Liz.

First, on the results. To me, I mean, who do I thank? This is great progress nationally over a long period of time and I think sort of collectively, the institution and people here, but really as a country, I mean this is something to be celebrated, I think.

I think about the first time in my career where I sort of encountered and had some tangential work on the notion of unbank and it was a completely different world and environment then. Thirty years ago, we were looking at government transfer payments and wanting to convey them through something other than mailing a paper check. You think about the unbanked population we were dealing with and trying to address. The country has come a long, long way since those days and so this is a continual set of challenges we're working on.

Second, I want to echo Naomi and some others on this question about trust and, Yan, I was glad to hear in your presentation that this is something you guys are planning on digging into deeper. I'd just like to suggest one other build, I think, a bit on what Naomi just said. If you've got a survey question that says, I'm not On Bank, why and there are some check boxes and one of them is, I don't trust my bank, there is an awful lot to unpack there.

It's not just I don't trust my bank to keep my money safe or my privacy, it may be I, in fact, trust my bank is going to do what it says it is going to do, which is there are certain rules and responsibilities associated with having this bank account and I'm not sure I can fulfill that or I have challenges about that and so there's an awful lot that can be going on underneath that question.

The third, it's quite important to be reporting on access to credit and use of credit. Maybe past surveys have focused on this and it's a topic we've moved on from, but I always wonder when we think about the unbanked or marginally banked, what's the access to savings? What's the access and the consumer attitude about accessing or utilizing the banking system as a way of building up certain cash reserves for the households. So, not just looking at credit, I'd consider kind of where are we in the evolution of the attitudes of the unbanked with regard to being able to use the banking system as a way of building up some rainy day funds, cash reserves and so forth.

With regard to your questions, so the survey results suggest what would be the most important economic inclusion challenges in the next three to five years. That's an even more so the most important economic opportunities for improving in terms of the unbanked. I mean I look at these results, I think man, you know, economic growth and education are two key things. Can we improve household income, can we continue to develop education? That seems to be pretty key drivers in these survey results.

Second, this is one I'd like to dwell on for a minute, and that is what else do we need to know to address these challenges noted today. Both of the points I am going to make have been touched on in the commentary already, but I'd just like to reinforce them. What do we need to know? I come away with this that we need to know more about that age breakout, 55-plus ain't going to cut it, especially when you look at the key challenges and the key change in characteristics of the cash only bank and you see 55-plus. We really need to know a lot more about that, so a finer breakout.

It also suggests another breakout that needs attention and Marietta touched on this and I'll use my words, but I think I'm saying something similar, which is the survey is measured at a household level and there are certain definitions of what is a household. There's also a concept of a family, family unit and family structure and so the household may not be banked, but the family may be banked and so to what extent are we not capturing that, especially when you look at the highlight summary at the end about how the characteristics of unbanked households have changed and you see that it's over 55.

So now think about over 75 or 80 and how many of us are helping elderly parents are elderly family members with their financial affairs and now that account may not be registered the way it had been when they were 55 if you will. I think that those two things are really important here.

Then lastly, organizations that are instrumental. Rather than go through sort of the obvious governmental and non-governmental, I think the education system and improving, you know, what the education system can do to improve financial literacy and to do this at an early age is really critical. Our economy is charging forward not just technologically, but in other ways and getting this embedded in understanding of folks at a young age is going to be critically important and, frankly, families as an institution are also really important to how this goes and where this goes from here. Thanks very much for this opportunity.

MS. ORTIZ: Thank you. Wade?

MEMBER HENDERSON: Thank you, Liz. Again, good morning, everyone. Let me say at the outset how honored I am to be back among those of you on this advisory committee on economic inclusion. This is an important body and over the years, you've accumulated a really important body of work that is worth revisiting from time to time for its recommendations for the future.

I've already talked about the quality and thoroughness of the survey, I won't repeat that. I've talked about issues of the racial disparity and what it means, I won't repeat that. I will say that the charge of this advisory committee to look at economic inclusion has to, from time to time, be the basis for what we recommend going forward.

The issue of poverty and race overlaps in terms of how we have access to financial services, but poverty itself is an issue that needs to be examined with greater detail and I know there are some who believe that the poor will always be with us. You go back to Matthew 26:11, the poor will always be with you. The first recorded statement of poverty and its implications for the future. The truth is poverty is itself a reflection of policy choices. While it is not necessarily -- it's not a bug of capitalism, it's a feature, but it's a reflection of policy choices and we can begin to address that if we are thoughtful.

I don't think the survey should be distorted to provide a set of recommendations to address a range of issues. I think you do what you do better than almost anyone and I want to preserve the sanctity of the survey. I have made a recommendation for policy inclusion and I would stick with that, but I don't think it should be distorted to reflect a set of changes.

I do think the various reports that have been done by this incredible research team over the years should be examined and refreshed and brought to bear on the challenges of the moment from time to time. Ten-year intervals might be good because you have a valuable set of data looking at issues of the way forward for economic inclusion. A child savings account as a way of moving forward and an assortment of studies that you've done.

I happened to look at the website and saw them listed going back to 2009 and it's an incredible body of work, and while it's made public by virtue of the website, it is not well known in policy circles and needs to be brought to bear on the issues of the moment.

I'm thinking about the debates that Congress has had over the Child Tax Credit and how we examine that. I'm thinking about Medicaid expansion and what means for poverty and what that means for access to financial services. The debate we've had over student loan indebtedness and how we address those issues.

Now, as I said earlier with respect to the racial question, that goes beyond the mandate of the FDIC, I understand that and I don't want to set the FDIC up to be a target of criticism because you have veered too far away from your fundamental mission. On the other hand, the body of data that has been accumulated over the years is invaluable and how we put that data together and how we make it available to policy makers of today to examine these really critical issues particularly related to poverty and how we address it, is something that I hope the research team will give thought to.

As I said, I think there has to be an interdisciplinary interagency set of examinations on these questions and certainly raising your head politically at this time is probably not a good idea. On the other hand, having this kind of data shared within the network of agencies that we work with, I do think is important and I'd encourage you going forward to think that through. Thanks. I'll stop there, Liz.

MS. ORTIZ: Thank you, Wade. Welcome Acting Comptroller Hsu, would you like to say a few words?

MEMBER HSU: I'll go last.

MS. ORTIZ: Okay, wonderful. Thank you. Margaret?

MEMBER LIBBY: Okay, I'm up. I guess, good morning, good afternoon. I'm Margaret Libby, the founder and CEO of MyPath. We focus on youth and young adults and financial inclusion, economic inclusion so I think my comments will focus on -- I'll start with one of the bright spots in the survey data. I think that -- well, actually I should start by commending the group. I think that's been covered, but it really is, especially I think looking at the longitudinal data to see the progress and to have that sliced by the different subgroups, I think is really meaningful.

One of the things when you do look at

it, I think what's striking is that it is largely about poverty and I was thinking about that, Wade, as I was looking at the numbers. It has struck me in other conversations that in a lot of ways, the conversation and the purview of this group has really been around financial inclusion, but I think looking at these numbers and really thinking about how to do the final mile does sort of demand a broader lens that is about economic inclusion. It is a tough moment to be contemplating what that could look like.

I think one of the things -- I have a couple of thoughts to offer there. One is, looking at the amount of engagement that the unbanked and underbanked have in mobile payments, online payments, I think there's a real question around the value proposition. If you're receiving income, you're making payments and you feel like you're sort of doing your banking, there's this question of how do we communicate more effectively around the safety question. I think safety for some of the issues that we've talked about with some of the failures of the nonbank platforms and apps, but also around climate and the lack of safety, if you are operating more in a cash basis or using just payment platforms.

I think the other thing is contemplating banking as a pathway to credit, so I think credit has been touched on. I think that is a really important kind of -- the numbers around credit, they do look a little bit better, but when you slice by race and ethnicity, it's really a place to focus. I think the last, or maybe it was a couple of meetings ago, talking about the special credit or special purpose credit products, I think it's exciting to see those. Hopefully, we can see more of that because I just think that is one of the value propositions is this idea of a path to credit.

I think with the other group that we have been talking about the folks who really are cash based, I think others have talked about this, but really dissecting this question of trust and what that barrier means to people, I think is really important. Thinking about how we reach people, like who are the right messengers. I think family members were touched on a possible, you know, younger family members as a possible messenger. I think really looking at what the messages are and who is the messenger is critical for these folks that we are talking about.

The thing that I wanted to highlight though in terms of thinking about a model that has worked going back to the bright spot in the numbers, is that the numbers around young people are really exciting. You look at where we were in 2013 and where we are 10, 11, 12 years later and I think we've heard a lot about the work that Summer Jobs Connect has done through Bank On, right, to bank a number of young people that being a powerful touch point of the first paycheck.

I think one of the things that's important about that story is that the original kind of innovation that led to that scaling was done by a community based organization engaging low income young people and spoiler alert, it was MyPath. We engaged young people who were experiencing these barriers and Brandee, I think, had the insight to invest in this kind of innovation that's really listening to people who are experiencing the barriers to figure out what does a product need to look like. How do we message it? Who are the right messengers? What's the right setting for them to receive this information and the connection to the product?

I think that that model of chapter one is really engaging the people who are unbanked to understand what the barriers are, figuring out how to address them, investing in the innovation at a community level. Then finding and sort of doing that with an eye towards scale, where you have a platform like, in this case, the Youth Employment System, which exists all over the country.

I think chapter three of this story is still being written which is really that to sort of take the innovation that has then been scaled so amazingly by the folks at CFE Fund. There's still, I think, the next chapter which is really engaging regulators to reduce the barriers so that more banks can get involved in providing youth accounts, non-custodial youth accounts. I think you guys are calling them, sole, sole ownership accounts. Accounts that 15-, 16- and 17-year-olds can own on their own, but I think this approach has been a huge part of the story of banking, a lot more young people.

I think thinking about GED programs as a platform or places where people are earning GEDs, thinking about the DMV, thinking of different touch points that are part of people's lives, doing pilots, scaling, I think is the way that we are going to figure out how to engage this group, or these groups I should say because they are very different subgroups that are still in the unbanked category. I think really meeting people where they're at, engaging them in the solution making and doing that design and testing with an eye towards scale.

The final thing I'll say, because I suspect I'm close to time and I haven't had any ceded minutes, Jonathan, could I have 30 seconds?

MEMBER PHILLIPS: That'll work.

(Simultaneous speaking.)

MEMBER LIBBY: I know, I know.

MS. ORTIZ: You've used Jonathan's.

(Laughter.)

MEMBER LIBBY: I've used Jonathan's okay. Well, then maybe what I'll do is I will just say quickly that in the next few years, I think that this kind of innovation in partnership with philanthropy is probably how this is going to happen because we don't really know, we have some ideas, but we don't really know what this next period is going to look like.

I think there's real opportunity to do some innovation in partnership with philanthropy around some of these groups and really figure out how we can get that final mile done. Thank you, all, and that concludes my remarks. There you go, Brandee.

MS. ORTIZ: Very nice segue to Brandee.

MEMBER MCHALE: Yes, thank you. I know, in fact, I'm going to flip what I was going to say. Everybody has talked about the distrust issue, I just want to add one additional spin on this and I would say what more needs to be done, we really need to have more and refreshed research around behavioral economics because I think distrust we've called out.

It's not just distrust in banks, there is just distrust in all institutions. We are going through a moment in our country like we have never seen before and I don't think we fully understand this, the trend and what is happening. This concern around lack of control, around privacy, around misinformation complexity. You have that on one side, but on the other side, I think we need to understand that behavioral economics and behavior psychology behind shifting consumer preferences for everything being instantaneous.

If right now I decided in the break I want Chipotle, I can make it show up here right now, I don't have to go anywhere. Amazon, things can be delivered magically, not tomorrow, this afternoon. I think that anything that can't be done instantaneously, also that's the changing norm and I think that there's a natural pressure because of a rise in fraud, because we want the banking system to have a strong regulated environment, we want safety and soundness, I think we have to look at these things. I would just say that I would love to see more research on behavioral economics.

I also think the second thing we need more of is to continue to make the economic case for why these things matter. We are not heading into, we are in a moment of incredible scrutiny and distrust of the why we're even talking about these things. Everything is politicized. I'd like to make the case for making the case that we should look at the economics and almost take the political piece out of it, but just what is the economic theory? What is the economic case? Get that data so that we've got, I think, a broader platform and can engage a broader range of stakeholders.

I'm going to just end so everyone has time. I'm going to end where Margaret ended, but I'm going to actually say the flip, I want to stay in the light with you, Margaret. I want to be positive, but I want to say I think, yes, community based organizations have been incredible innovators, have been able with philanthropic dollars, with public sector dollars to be able to test, research and test, new ideas.

I think we are heading into a moment where there is going to be an extreme contraction of public resources, but also potentially philanthropic resources for the kinds of systems change funding that has been available. In particular, the rise of systems change funding in the philanthropic space, I think because of the bright spotlight and the distrust, even of the role of philanthropy in this country. I think that we're going to see changes in what funding is directed to. I'm particularly concerned about community based organizations more than ever needing to be safety nets for communities that are really experiencing extreme levels of financial insecurity.

I think, again, that some of the traditional funding that's been available and has been on the increase if we look at the trend, particularly from the public sector over the past two decades, that all may be changing. The private sector cannot step in and make up that gap, so we'll have to see where that goes. Thank you.

MS. ORTIZ: Thanks, Brandee.

MEMBER MINTZ: I think Brandee just cut my grant, I'm not sure. Thank you to the FDIC. I share everybody's belief that this is critical information and deeply meaningful. The ability to manage and understand the work that we're doing through data is everything.

I also want to share Naomi's observation that the big moment of the national needle in the last report, which was beyond expectations, beyond dreams, was not a blip and honestly, it's the main thing I was looking for when this survey came out and that's huge. I think it's really important and incredibly encouraging for the work that we're all doing.

A note about where our work is and how we take we are and look to the future. Our work with our partners centers around the seed planted by the FDIC years ago now, about the right account. Our partners at the St. Louis Federal Reserve have just released their most recent Bank On National Data Hub report. There are over 11 million Bank On certified accounts that are open currently in this country. About four million, just over four million or so were opened just last year and 84 percent of the people who opened those accounts were new to the financial institutions, presumably unbanked, but new customers to those financial institutions.

Those kinds of numbers are certainly part of the mix here and, as I have said countless times, can only happen because of the partnerships that make that possible. We are now up to about 500 banks with certified accounts. Liz, remember when we started with four?

MS. ORTIZ: Yes, I do.

MEMBER MINTZ: They make up about 60 percent of the market, both in terms of branch coverage and in terms of market share of US deposits. These are good accounts. The bond hub data that the Federal Reserve just released continues to show that they were designed to be used and they are being used.

The average number of debit transactions in a month is 31, so at least once a day on average, people are using this account for debit transactions to the tune of about 10-1/2 billion dollars a month of money moving through those debit transactions. There is an average of seven deposits a month, so it's not just taking money out, we know how the law of conservation works. There were about 174 billion dollars that were deposited into these accounts in 2023. So, these are real accounts. They are really being used and they are providing the kind of activity that make them part of the sustainability mix.

To Brandee's point a moment ago, a quick reminder, commercial announcement, it's not just how many accounts are out there and how many people still need them, but it's why it matters without reiterating data that we've had in the past and that we will continue to look to in the future, banking isn't just an adjective or a verb, it's foundational to economic security. If you're going to help somebody move forward with building credit, if you're going to help them move forward with building savings, they are just so much more likely to succeed if they have a basic banking account. This work does, in fact, play into the larger mix of economic security and health.

Going forward, we think of this at the

CFE Fund, I would say in two ways in terms of reactions to today. One is this notion of the last mile. The millions of families that still don't have basic accounts need them. They need them more than anyone else as the data shows and the idea that we've basically done what we can do isn't the way any of us think and not the way that we will continue to think moving forward.

One of the ways that the CFE Fund is thinking about, along with our partners, thinking about this notion of a last mile is really digging not more broadly in the ways that some people are thinking about poverty, but we can't do that. What we can do is dig more granularly in the experience of people who are saying no thank you to accounts and in the experience of people who are newly getting bank accounts.

One of the mechanisms through which we are going to be able to dig deeper is through another one of our signature programs which is the financial empowerment centers, which are one-on-one free professional counseling as a municipal service. We're not in about 50 cities and counties and growing across the country.

There's a lot of data. There's a lot of opportunities to dig into what's happening between a counselor and a client when discussing banking and how to continue to dig into not just what's happening psychologically and what's happening in the counseling experience, but how to really hone our messaging to be able to unearth and address trust, whatever that means, etc. That's where we will be looking to dig in further.

The second go forward strategy for us is not just the last mile, but something I alluded to before, I called it churn, but this notion of keeping people in the system. That's huge as we know because half of folks who are unbanked used to be banked, keeping them in the system is really important and, as I mentioned, foundational.

We are, again, continuing to think about what is the experience of somebody newly in the system and how can we understand their success and what would boost that success. How can we work with our banking partners to reinforce that good banking experience beyond just a good account? But then the second approach that we think about in terms of keeping people in and keeping this momentum of very low national unbanked rate low is our emphasis on systems.

I think, you know, at the CFE Fund in particular, we just continue to hammer home that part of the Bank On equation which is the way you get people banked, the way you keep people banked, the way you reinforce why they are banked is you are making sure that wherever they're being touched by money by government, they are encouraged and facilitated to be getting that money directly deposited into safe accounts.

So, to your question, Liz, which I don't want to completely ignore about partners, I would say that really comes down to government partners who continue to work with us whether it's the federal level in ways that we've all discussed before. The Treasury Secretary recently discussed, whether it's state level talking about unemployment insurance payments, whether it's local with Summer Jobs Connect and some of the great work that Brandee has helped support and others, really focusing on those government systems. Philanthropy plays a huge part and I'm not just saying that because of recent remarks, and our ability to be investing in that change and making it happen.

In the Bank On context in particular, we now have about 100 and some odd coalitions, who are working really hard at the local and state level to make these equations work and our ability to support them has been really huge.

The last thing I'll say is that I think that incorporating or maintaining in the survey this emphasis on churn, I think is really important. I think it's really important for us to be focusing not just on who's in and who's out, but who stays in and who goes out. Thank you so much.

MS. ORTIZ: Thanks, Jonathan. Leigh?

MEMBER PHILLIPS: I thought you were quite succinct, Jonathan.

MEMBER MINTZ: I thought so, too, Leigh.

MEMBER PHILLIPS: Well done.

MS. ORTIZ: I'll be the judge of that.

(Laughter.)

MEMBER PHILLIPS: I'm Leigh Phillips. I'm the CEO of SaverLife. SaverLife is a nonprofit and advocacy organization focused on the financial health of people with low incomes. We have a financial technology platform that connects now to almost 700,000 people across the country.

I'm going to actually add some data from SaverLife to perhaps answer some of the questions that have been raised today and to speak more from the consumer experience. SaverLife members are more likely to be women. They're more likely to be people of color. Average income is around 30,000 dollars a year. We believe they are also more likely to use technology, so just kind of bear that in mind as I share this information.

Next week, shameless plug, we'll be releasing the first of two papers on the consumer experience with financial technology. When people join SaverLife, they connect their bank accounts to SaverLife. We also are able to cross reference that information with survey data, enact behavior, all sorts of other things. What we really wanted to get at with this survey was are these financial products and services making people better off or not and in what ways.

We have looked at the kind of three major categories. One is neobanks, fintech banking I'll call it today, which is obviously very relevant to today's conversation. The second is buy now, pay later and the third would be cash advance or earned wage access depending on how those products are delivered.

I think that there are a lot of clues here into what consumers are really looking for to Marla's point around who is serving their needs. What we find is almost half of our members, 45 percent, are using a fintech banking app. That compares to 76 percent who use traditional checking accounts. So, the usage is very, very high amongst people of low incomes. Those aren't mutually exclusive, about 27 percent of our members actually use both.

Compared to tradition bank account users, we find that fintech account users are less likely to be employed full time, more likely to be unemployed or self-employed and more likely to be living with a disability. Traditional bank account use actually rises steadily with income, so what you see is as incomes rise so does traditional bank account use.

This makes sense that members with lower incomes are actually looking to reduce fees associated with banking. Seventy percent of our members said that they were using these products to avoid fees.

If we look a little bit more closely, we did ask people about their experiences with fees associated with traditional bank accounts and what we find is that the mainstream financial system is still struggling to serve these consumers in ways that are affordable. Among members with a checking account with a bank or credit union, 34 percent pay account maintenance fees every month, but that number increases to 44 percent for Black and Hispanic consumers.

Again, looking at income, the likelihood of paying these fees rises with income up to 50,000 dollars and then declines as incomes rise. Once again, we still see this dynamic where people who can afford to pay the least are actually paying the most.

We also asked about overdraft and we found that half of our members with checking accounts are still paying overdraft fees. Most have paid one, about 25 percent who have paid a fee once or twice, 20 percent had paid three or more. Again, that number increases to 58 percent for Black consumers and with income 60 percent of those earning 25,000 to 35,000 dollars a year, paid an overdraft fee in the last 12 months. You can see that we still have some problems, but, you know, I will end on a high note. I'm sorry, I know, I will, I promise. It's important to be realistic about what consumers are experiencing and to understand what's prompting them potentially to move away from mainstream banking and towards more financial technology based platforms.

Seventeen percent of members said they had closed a checking account with a bank or credit union compared to 14 percent who closed a fintech checking account, again the number one reason being fees. When it comes to BNPL, Marla, I can answer your question, groceries is the second most common usage of buy now pay later, the first is clothing and very different from what the FDIC found, we found that 40 percent of our members have actually used buy now pay later in the last 12 months and 60 percent of them had had an issue.

Similar to the FDIC, we also see the

BNPL users have higher rates of credit use across these types, particularly credit cards, so we're not seeing it replace credit, it's just another form of credit stacking.

I won't go in too much detail about cash advance and earned wage access as I find it less relevant to what we're talking about, but I can tell you that usage is pretty high, about 17 percent of people using cash advance products compared to earned wage access, which we would describe as employer based and it's more around 8 to 10 percent. Interestingly, the rate of payday loan use was five times greater among cash advance users than it was for non-cash advance users, so again the argument that this is replacing payday does not appear to be correct.

What this tells us is that the issues that families face, unfortunately, are unchanged. People still don't make enough money to cover their basic expenses and they are looking for liquidity and they're looking for that in ways that may be expensive.

Going back to the issue of overdraft, the number one reason why people overdrafted was because they weren't aware that their balances were low or they thought they had enough money in their accounts to cover it. In this day and age where we can all look at our bank account balances instantly on our phone, I actually find that to be unacceptable and the banks really need to be doing more to alert consumers to low balances to avoid these kinds of fees.

I will say that I really appreciated the focus on family composition. One of the things that we find in every survey that we ever run is that the presence of children is a consistent predictor of financial hardship. As someone who has two small children, I can tell you it's extraordinarily expensive and that also correlates to the use of short-term credit fintech products. So, families and then of course, income. We see the rise of all of these products rise and it peaks in this 35,000 to 50,000 dollar a year income bracket, which probably speaks to the impact of benefits, cliffs and other family supports that phase out around 35,000 dollars a year and again we see these things decrease when income is past about 50,000 dollars a year.

We'll have more to say on this in the next week or two, but I will just very quickly, I don't want to be the new Jonathan, with my time, but I will answer your questions quickly.

I promised I'd end on a positive, so in terms of what we need to know, Margaret mentioned climate change. Our members are really suffering financially from climate change. One in four have missed a mortgage, a rent or a bill payment as a result of climate change. One in five have lost income.

These are the impacts of energy costs burden, income loss, power outages and more chronic financial impacts. So, continuing to look at climate and understand it's impact on low-income families and households is really important.

On a more optimistic note, I do believe that the future of financial services will be more human centered and that that's going to be powered by emerging technologies. It may seem counterintuitive to say that technology will make things more human, but when you think about personalization, being able to deliver the right information to people at the right time in the right tone in the right format, the ability to understand people's financial inflows and outflows and how we can actually build products that meet the complex realities of people's lives, I think that that's where we really need to head.

In terms of what else we need to know, I think what we need to know is what people want and what they need. So, again, we've made great strides in not trying to change people to fit the system, but I think we need to do more to understand how the system can change to help people, particularly when it comes to mismatches between income and expenses.

Now, I did promise a positive, so I will just say I think in terms of what orgs will be instrumental, I really want us to focus on the role that collaboration has played in our work to date.

Just as I look around, this table has three members of the CFE Fund Board sitting at it, three of the founding members of Kindergarten to College sitting at it. The original founders of the Bank On movements sitting, again, at this table. One of the first investors in SaverLife from the Financial Health Network. So, I think if we all are playing our role and playing it well that we need to know what we're working towards. I'll stop there. Thank you.

MS. ORTIZ: Marietta?

MEMBER RODRIGUEZ: Good afternoon, Marietta Rodriguez, President and CEO of NeighborWorks America. The comments I have are mostly informed by our 246 network organizations that are working in communities every day, many of which are CDFIs and provide financial and housing counseling services. I think when we look at challenges, what we're hearing is a little bit of -- I echo what Brandee said about we're in a very uncertain time in terms of federal programs that organizations have relied on for funding and for offering to their customers and increasing volatility in the philanthropic world.

I think why this is important in this conversation is I think it's really important that we maintain and invest in a strong infrastructure on the ground in communities, because they are the trusted advisors in those communities. We've seen it play out over and over again. We saw it in the foreclosure crisis where people needed foreclosure intervention counseling. More recently, we saw it in the pandemic where these housing counseling organizations, these community groups, became resource hubs where people came and got trusted advice about how to access healthcare and other services. It's really important that we maintain this infrastructure, even in this time of uncertainty.

I also think that in the same vein, it's important that we maintain responsive, clear and accessible bank products because this infrastructure can be allies to the financial services industry in promoting and ensuring folks know about products that are being offered that they just may not know because they are either underbanked or unbanked.

I think it's important that we pay attention to that trust issue and what we don't know completely, I agree with Brandee about getting into the behavior around this. What's driving the distrust and let's try to solve that. What would it take for more consumers to trust the financial services sector in a greater way, what does that look like? What are the distrust drivers for those cash only customers? Is it ease of use? Is it fear of scams? What is it? Is it the instantaneous need?

One thing that we do know from our network is that those customers, those clients, that work with financial coaches are two and a half times more likely to use a piece of technology or an app to help manage their finances. That tells us there is some trust there and there is a way to leverage that.

In terms of what we can do forward, I think we need to think about what are the opportunistic life events that customers come to that can be used to also leverage some of these other pieces, like is it tax preparation? Is it leveraging some work in the volunteer income tax centers? Is it when people apply for different kinds of programs? What are those life events that we can use to leverage some of this work?

Even though I know we're talking about banking and unbanked, I also think it's all in service of maintaining wealth and financial health and stability. One of the things that is happening that is really stripping away a lot of wealth right now is the issues around tangle title and heirs' property. While that's not particularly on topic, I think it's worth noting that that is something that is also bleeding wealth out of communities and those drivers need to be looked at as well.

MS. ORTIZ: Jennifer? Thanks, Marietta.

MEMBER TESCHER: So, I want to pick up on something Brandee said to start. Brandee talked about the need to make the economic case and I am emphasizing that she did not say the business case. I think she's talking about something broader and I think that in the lead up to the election, we heard from a lot of business leaders the talking point that a strong and health democracy is really critical to having a strong and vibrant economy.

I actually think that the results of the election suggest that the correlation also runs in the opposite direction, which is that a financially healthy citizenry is critical to having a strong and healthy democracy. I can't think of a more important foundation on which to build as we think about why this work matters.

I'm going to pick up where Steve left off in terms of his optimism. 2024 was the 20th anniversary of the Financial Health Network and as I look around this table most of the people around this table have been doing this work in one way, shape or form or another for a very long time. I think that's in part why we were so taken with the longitudinal version of the survey results that we got today because we have been playing a long game. It's important to occasionally take stock of that long game.

I think this year in particular, we've seen a host of really incredible developments that suggest that the work we've been doing to drive inclusion and financial health and wellbeing that there have been some important milestone events.

I'll give a commercial for the Acting Comptroller, this year he stood up on stage and called on banks to start paying attention to the financial health and wellbeing of their customers by measuring a set of three vital signs. Really systematizing a lot of the work that we and many others have been doing for years. Banks are really at the table. This isn't a pulling by the ear.

I was lucky enough last month to be with Queen Maxima of the Netherlands at the United Nations where she was celebrating 15 years of her role as the Secretary General's Special Advocate for Financial Inclusion. It was announced at that event that the title of her office was shifting to all of that for financial health because of the recognition that, similar to the United States, globally there are still people to be included, but now we've got to figure out for those billions who have been included, how do we get to the ultimate outcomes we want.

Tomorrow, I and I suspect some other people in this room are going to be at a Treasury event, where the Treasury is going to be -- they've already released it, but they'll be celebrating the release of a new national strategy on financial inclusion. This finally makes us one of the 50 or 60 or so countries around the world who already have one of these and many of the members of the G20. In a way, having heard the survey results, they're a little late to the party, right? But, the work that they did led in part by our colleague who is not here, Ida Rademacher, at the Aspen Institute, played a very important role in helping to drive this work and make this happen.

It's really an incredible document and I think it does a great job of encapsulating many of the things that we've talked about today and sets a strong agenda for the role that not only government can play and regulators can play, but the private sector community groups, etc. We should feel good, the work is never done, but we should take a minute and just realize what we've accomplished.

The fact is that there's no time to waste, because while the FDIC results show that we're at the lowest level of unbanked since we've been measuring, we still have tremendous financial precarity in the country, especially and this I want to spend just a couple of minutes sharing some data points, with households who revolve their credit card debt. We do a couple of signature research efforts every years.

One of them is the spend report I mentioned earlier. The total interest in fees from consumers who carry a credit card balance, the amount of interest and fees they paid on their credit cards was 150 billion dollars in 2023. That was up year on year 30 billion dollars. It was up 50 billion dollars from 2021, which was before the fed funds rate increases began from inflation.

Through our pulse report, where we essentially measure the financial health of Americans year on year, year on year these same credit card revolvers were more challenged to pay their bills on time, less likely to have three months' of living expenses saved and less likely to believe that they have a manageable level of debt. This ties to another trend that we saw in our pulse report, which is the percentage of middle-income households, which is 80 to 120 percent of average median income, so it starts partway through the group that Leigh was talking about and goes a little bit above.

The percentage of that group that became financially vulnerable year on year went from 11 percent to 14 percent, possibly related to the fact that this is the income group that's most likely to hold revolving credit card debt. In a country where 70 percent of GDP is based on consumer spend, it's frankly not that surprising, but if we're not addressing that issue, we're missing a big part of the story.

I'll just close with a reiteration of what I said earlier, which is I really would encourage the FDIC to think about adding a financial health measure or data points that would allow a measurement to the survey. I don't think it is out of scope or beyond the mandate and I think it will help continue to focus the attention of the audience for this report, not just on the data points and problem and the success, but also what needs to happen to make sure we get to the ultimate outcome that we want for people. Thanks.

MS. ORTIZ: Thank you. Okay, saving the best for last.

MEMBER WEINSTOCK: Thank you, I think I'll try to be succinct. It's between me and lunch. First of all, to Mike's point, I have to say there was the Pugh box. Do you remember 10 years ago? Yes, Naomi remembers that we worked hard to get that done but it never got mandated unfortunately.

Anyway, to answer the questions, I think the survey gives you the what and we talked about how we can't get to the why. But I think there is a little bit of a way to get to the why, which is to look at consumer perceptions. This question about trust and privacy. What are consumer perceptions about bank fraud, bank privacy practices? Because it would be good to know what they already think or know in order to figure out how do we fix this or move forward with it.

Then, the consumer understanding on the use of non-bank online payment services. The downsides, I think about Uber is this verb that we use now and look what it did to the taxi industry, right. So, Venmo is also a verb and somebody talks to you about sending money, oh, you're going to send it over Venmo. What are the implications of that? I think we need to start looking at that.

I also think we need to look at the perceptions of the full cost of the non-bank services and then the full cost of having a bank account. What do people think that they are paying in each category to understand what's going on here because I don't feel like we know that. We ask questions about their usage, but what are they thinking about?

I was really surprised by the unbanked, age 65 plus that 20 percent of them are unbanked. Given Social Security's push for direct deposit, that really shocked me, so I would love to dig in on that a little bit. What is going on there because Social Security really pushes use of direct deposit.

Okay, so that was question one. Question two, I think we need to look at fees and costs as experienced and perceived by consumers. What are consumer protections about the cost of a bank account and the minimum deposit requirements? Did they kicked out of the banking system because of overdraft or whatever? What happened to them? They haven't been in a bank system for a few years and they think it costs X and it actually, we know that the actual answer is Y and it's just a perception issue. We don't know the answer to that so it would be interesting to know that.

What are the costs the consumers incur when using prepaid and online payment services versus the cost they incur when they use a bank account? What's the difference? Let's look at that delta. On buy now pay later, 12.8 percent missed or made a late payment, so how much did this cost them? What did they pay and what ended up being the total amount of fees that they paid when using these services?

On the last question about organizations that are instrumental, I think there's an opportunity to work with Social Security Administration. Let's find out what's going on there because that stat just really surprised me. Then, America Saves which is part of Consumer Federation, I will put in my needless plug for that, and this is Veteran Saves week, so please go on Veteran Saves week. We have over 900 partner organizations we are working on. I know the FDIC is very involved and we appreciate your work on this with us. We are thrilled to have this be a great week to be doing this and to push out help for our veterans.

Then my last shameless plug, Financial Services Conference for CFA is December 11 and 12, here in the Washington area. Mark Zandi from Moody's is going to speak. Mark Morial from

National Urban League is going to speak and we've having panels on debit card interchange, credit cards, student loans and housing. So, that's my plug.

MS. ORTIZ: Thank you, Susan. Comptroller Hsu?

MEMBER HSU: Thanks, I just want to appreciate this huge thing. This is extremely interesting, insightful, inspiring. Just maybe three main kind of takeaways from the conversation. The first prompted by a comment that Wade had made about periodically reassessing, taking that time.

I do have this sense that there is this kind of built in assumption through the survey work that's been done that there's virtuous cycles and there's vicious cycles. If you're banked, you're part of the virtuous cycle. I think that that's been something that we've just kind of assumed for some time. If you're unbanked or you're underbanked, you're part of the vicious cycle. I'm not sure, I think it's a good time to reassess that.

I have a sense that there's a population of folks who are living paycheck to paycheck that feel very stuck. I think this gets to some of these trust questions and I think it might be interesting for the survey to kind of probe that a little bit, which gets to my second point.

What gets measured gets managed and in a sense, this survey by itself has really organized a huge amount of effort on unbanked and underbanked. I think it's very hard to overstate really, I mean it's just astounding. When you step back and I think that's phenomenal and fantastic.

I think as we move forward, I just kind of want to build off of something that Jennifer had said, now as we unpack these problems, I think it does put sort of more pressure on us, like well, what do we want to measure? Are we measuring the thing that's going to move the needle the most for the most people, I think that's just wonderful work that's being done in that sense.

I think Naomi's point about the unit economics of banking LMI is something that does deserve a lot of work. I think that there is an industry perspective on that. I think it's helpful to have at this table, just exploring that in depth because we have to pull on all levers. There's going to be some requirements, there's going to be some philanthropy, there's going to be some business and how are we measuring that and thinking that through, I think is really critical.

Finally, this point on trust. I think about trust like all day long, I really think about it at multiple levels. There was an ad that was a crypto ad from a couple of years ago that just for some reason, people were sending it to me. It just stuck and it starts off with a young girl, like in grade school, and she's getting good grades and then she goes into high school and she's winning competitions. She goes to college and she gets married and at some point it just darkens because she's got student loans, she's got cards.

She's like doing all the right things and in the ad it's like, yeah, but the system is working against you. The system is the system, it's not -- it's saying that system, traditional banks, all the institutions are kind of lumped together with it. It's in this like gray sepia tone and it's like this is why you should do crypto was kind of the punch line. We're all shaking our heads, but I do think there is something for younger folks. They look at that, they're like, yeah, right? We have to work on that. I don't know what we do about that, but I do think it does require us to ask, okay, so we're each doing our parts, but if the system isn't able to provide those opportunities, then either you're part of the system or you're against the system.

Unfortunately, we're in this environment where that just leads to some really funny outcomes, which I am not supportive of but it does just prompt a lot of, I think, questions for us, like what are we doing there? How do we address that? I think it's a really critical thing. I'll stop there. Thank you.

MS. ORTIZ: All right, I think that was the perfect way to end what was I thought a wonderful member roundtable. Thank you, everyone, for your thoughtful comments and contributions I will not attempt to summarize. I will just say that I think I'll pick up on Leigh's point that working together, there is a lot that we can do, a lot for us to do and I personally am very much looking forward to it.

Shall we go to lunch, Mr. Chairman?

CHAIR GRUENBERG: I think we have an hour, yes.

MS. ORTIZ: All right, back here at 1:30.

(Whereupon, the above-entitled matter went off the record at 12:31 p.m. and resumed at 1:48 p.m.)

MS. ORTIZ: Welcome back, everyone. It's my pleasure to kick off the last two panels of the day by turning the microphone over to Associate Director Keith Ernst.

Keith.

MR. ERNST: Thank you, Liz. Good afternoon, Mr. Chairman, members of the committee. It's a pleasure to be with you today. Before I move into this panel, I just want to provide a clarification from this morning's discussion.

At the end there, I think we were talking about the unbanked rate among households age 55 and older. And I just want the record to be clear that the segment continues to have the lowest unbanked rate of any cohort we track in the survey. The unbanked rate in that group is 2.9 percent in 2023.

Now, it's a large portion of the population and more younger households have entered the banking system. So it's a share of the unbanked population has grown, but the unbanked rate remains sort of the lowest among the age cohort. So, glad for the opportunity to clarify that.

And now to turn to this afternoon's session, which focuses on qualitative research. This morning in the presentation in the household survey, we had some discussion of the strength of the household survey being what but not so much why. And we're often left grappling with trying to interpret sort of what is the motivation, what are behind the decisions that consumers are making.

Survey vehicles can help us with that. We certainly ask households the reasons why they don't have a bank account. But really qualitative research is uniquely situated to help us sort of understand the thinking of consumers. And so we're really pleased to have been able to do some of the work along those lines and to delve into the why and to share it with you today.

As I mentioned, it's particularly useful for identifying the way in which consumers are thinking about the choices in front of them. It's also a great way to make sure we hear the voice of the consumer.

So in today's presentation you'll hear audio clips with consumers speaking in their voices about the choices they're making and their perceptions. We have, reprising their speaking engagement from this morning, Susan Burhouse and Yasmin Osaki, Senior Consumer Researchers to help us with this. They've both been involved with our economic inclusion research agenda for many years.

And we appreciate their wisdom and ability to help us to with today's discussion. They're going to be presenting work that explores sort of the choice consumers are making, particularly around doing business with banks and nonbank firms, how they perceive them differently or the same, how they think about their choices, how they think about consumer protection in that context.

But before I give the floor to them,

because we're engaging in consumers and hearing their voices directly, consumers are going to make representations that are reflective of their views and their experiences as they have lived. But they are not necessarily the views of the FDIC.

So our Legal Division has helpfully provided me a disclaimer that I will now read.

The information contained in these audio clips was obtained through interviews with consumers regarding their personal experiences in the financial services marketplace and it's being used by the FDIC for research and informational purposes only. The FDIC neither assumes responsibility for nor certifies the accuracy of statements made by consumers.

We wanted their perceptions, you know, their truth fuels their perceptions. The views expressed by the consumer participants are their own and do not reflect the official positions of the FDIC and are not binding on the FDIC, its board of directors, or any board member.

Lastly, any reference in these audio clips to any specific commercial product or company does not constitute an endorsement, recommendation, or favoring by the FDIC.

We've taken care of that business. And please take us away.

MS. BURHOUSE: Hello, but yes, we're back. Seriously, my own family probably wouldn't listen to me speak. Maybe on my birthday, if I'm lucky. So I do appreciate you being a captive audience here for us.

Seriously, though, I'm really happy for the opportunity to share this research. Yasmin and I are really excited about it. We know that over the past few weeks, many of you have had the chance to view the video presentation of the qualitative research findings.

We really like that video. We've found it to be a really powerful way to share the results. But we recognize that maybe no everyone has had a chance to see it, and even those who have seen it, I know it's hard to keep all of that information top of mind.

So today, Yasmin and I are going to go through some of the key takeaways that resonated most strongly with us. And also talk through some areas of opportunity or ways to put these findings to use.

And as Keith has promised, if things go right, there's a lot of technology involved here, that along the way hopefully you'll have a chance to hear some audio clips and hear from consumers in their own words.

First, though, a little bit of background about our research. They key research objectives were to explore whether or how consumers distinguish banks from nonbanks, assess how consumers make decisions about how and why to use different financial products and providers for different reasons, and to learn about consumers' perceptions of consumer protection.

We did this because we know that the marketplace for financial services has changed a lot. From the household survey results that we talked about earlier this morning and other sources, we know that the market is more disaggregated than it used to be. And consumers, including those who consider fully banked, are more like than ever to be using a mix of bank and nonbank financial services for different purposes.

This research was a chance for us to dig in and understand as Keith said the whys and the implications of those choices. And to do this, in April 2024, we conducted eight focus groups, including two in Spanish, and 16 one-on-one, in-depth interviews in four different cities.

In total, we had 63 research participants with diverse socioeconomic characteristics. We did purposely oversample unbanked consumers, lower income consumers, and consumers who regularly use nonbank P2P providers like PayPal or Cash App, and other nonbank fintech providers like Chime.

Notably, while we did oversample lower income consumers, we also included some moderate and higher income consumers because we thought that the questions around how and why consumers are using different combinations of providers, they're really not just an LMI issue. There are implications for economic inclusion, even among fully banked or higher income consumers.

Now, Keith already very eloquently read our very fancy and robust research disclaimer, so we don't need to repeat that. But I do want to point out a couple of considerations or reminders about qualitative research.

First, sometimes consumers' perceptions just don't accurately reflect the current policies of financial providers or industry standards. Consumers' opinions might be based on misunderstood facts.

And these misunderstandings were not corrected during data collection because, you know, the whole point was for us to really objectively hear and understand how consumers view the marketplace.

And another thing to remember about qualitative research is that the samples here are small. They're based on convenient sources. As I mentioned, we intentionally over-sampled certain subgroups with certain characteristics. And we required in-person participation for most of the data collection. So those who couldn't or didn't want to participate in person were not included.

So for all those reasons, the views expressed by the research participants can't be taken as representative of the views of the population overall.

All right, so that was a lot, but now we can really get into it. One of the first things we wanted to learn from this research was whether and how consumers distinguish between banks and nonbanks.

And I think this is where I got my first surprise. I had been expecting to hear a lot more confusion about whether consumers thought that companies were banks or not.

We did find, though, that most consumers were able to tell the difference. You know, they would generally tell us that companies like Bank of America or Wells Fargo are banks, while digital payment providers like PayPal are not banks. They knew that.

Sometimes they even talked about nonbank fintech providers as being like a bank or almost a bank. And some consumers were even aware that there are often partner banks behind or associated with fintechs.

To make the distinctions between banks and nonbanks, consumers thought about the functions and the features of the provider. Interestingly, a lot of consumers had certain characteristics in mind that to them they use to define a bank. Notably, a lot of consumers thought that banks were institutions that have physical branches or that provide credit.

And here is one consumer talking about how they make this assessment.

(Audio played.)

MS. BURHOUSE: There were a number of other functions that consumers felt made providers act or seem like a bank. For example, when providers give a routing number or an account number that a consumer can use to get direct deposit, that's something that makes it seem very bank-like.

And you know, one consumer said if it's got an account and routing number, it's a bank to me. And providers that allow consumers to write checks, whether they're paper checks or e-checks, that's also a very bank-like function.

Another bank function is to store funds. And put simply by one consumer, a bank is somewhere to keep your money, very straightforward.

Again, lending money was a very bank-like function. And consumers are not necessarily thinking just of mortgages or car loans, but even small-dollar loans or spot loans are offerings that consumers associate with banks.

You can see from this that there are a lot of areas where bank and nonbank functionality seem to overlap. And this is where things got a little bit blurry for some consumers.

Now, in some cases, even when a provider offer these things, you know, even if they're a nonbank, it doesn't necessarily make a consumer confuse the provider for an actual bank. But it makes the consumer feel that the provider is functionally a bank, which is key for them.

But in other cases, there were some consumers who did seem to feel that it a provider does offer these types of functionalities, they just must be a bank.

When describing banks, consumers had a lot of positive perceptions. One thing that came across really clearly and consistently was consumers' appreciation of live customer service that banks offer. Many consumers noted that they like the option to get in-person customer service at a branch.

And consumers also appreciated the chance to talk to a live person, maybe on the phone, rather than having to deal with chatbots or AI. Importantly, even the consumers who rarely if ever use the bank branch just really valued having the branch there and accessible if they need or want to go in to resolve issues and to get in-person customer service.

We’ve got two clips here demonstrating just how strongly consumers do value this customer service.

(Audio played.)

MS. BURHOUSE: Consumers also feel that banks are very strong when it comes to security and protection. Consumers, especially bank consumers, think of banks as institutions that have been around for a long time. They find them reliable and trustworthy and consider them safe places to keep money. One bank consumer expresses it well in this clip.

(Audio played.)

MS. BURHOUSE: Consumers also liked

that banks provide solid fraud protection and have good fraud resolution services. As we talked about this morning, fraud is increasing, but we certainly heard from consumers who had experienced fraud in their accounts.

But in many cases, they reported positive experiences. They said that the banks worked with them and helped them to resolve their issues.

Another positive aspect of banking is the ability to grow a long-term banking relationship. Consumers described how having a banking relationship could ultimately help them meet goals. Having this relationship, they thought, would help them with some of the things I've already mentioned, like accessing customer service and having a friendly face at the bank.

But for many customers, it went well beyond that. They felt that growing this banking relationship would help them achieve aspirational goals. For example, qualifying for a mortgage and buying a home to finally becoming a successful homeowner.

And the bank consumer in this clip is definitely hopeful about how her relationship will set her ahead.

(Audio played.)

MS. BURHOUSE: A closely related finding is that consumers value the ability to learn about and access a variety of financial products and services at a bank.

A consumer might start with a checking account, but the banking relationship gives them the opportunity to hear about other products. And they feel that it puts them in a better position to access those products.

They specifically feel that it will make it easier for them to qualify for bank products, especially credit, if they're a customer of that bank. And many consumers told us that they appreciate when banks proactively reach out to them to market products and programs that they might need or qualify for.

(Audio played.)

MS. BURHOUSE: One question that I thought was really interesting that we asked was whether or how consumers thought banks were changing. Specifically, did consumers think that banks were getting better over time, getting worse, or staying the same.

I think bankers and economic inclusion stakeholders will probably be heartened to hear that many consumers did feel that banks are getting better. And that's because they recognize that banks have been evolving.

They've, you know, banks have been embracing technological advances. They offer tech for services with robust apps and online services.

But importantly, consumers also really like the fact that banks haven't abandoned some of the more traditional aspects of banking. Consumers really like the bank, the fact that the bank complements these technology offerings with the tried and true, brick and mortar branches and the reliable live customer service.

So in their mind, banks have evolved and improved with the times while holding on to their roots.

(Audio played.)

MS. BURHOUSE: Now, before we get too carried away, it's not all sunshine and roses. Consumers did mention the things that they really don't like so much about banking, including some things that we've been hearing about for a long time, and some new weaknesses that have emerged as banking services have evolved.

First, the fees. I mean, we've all heard this before, but fees that consumers feel are too high or not transparent are still big pain points for consumers. Overdraft fees, minimum balance fees, ATM fees, people still don't like them.

(Audio played.)

MS. BURHOUSE: Consumers also dislike the fact that banks seem to provide slower access to money than nonbank providers. People don't like bank holds. They've experienced that they can get access to funds like from their employers' direct deposits sooner through other providers.

For some consumers privacy is an issue. People are protective of their personal data and information. Some people have really strong preference for keeping their financial transactions and records private and they feel that banks are too official and subject to too much government oversight.

And finally, many consumers, bank consumers specifically here, noted that banks' payment networks are limited and they feel that they can't exchange money with everyone that they need to if they rely just on banking apps.

Multiple consumers pointed out that they have relatively small networks of people that they could send money payments or receive payments from using Zelle. And that was definitely a limitation to them in their eyes.

(Audio played.)

MS. BURHOUSE: Unbanked consumers,

probably not surprisingly, had even more negative perceptions of banks. In addition to the weaknesses that they just talked about, unbanked consumers had a much harder time trusting banks.

I mentioned at the beginning that a lot of consumers did perceive banks to be reputable, longstanding, and trustworthy institutions. But among unbanked consumers, they had often had experiences that eroded that trust.

Many unbanked consumers had encountered problems with high and unexpected fees or account management issues that damaged their banking history.

In many cases, these specific incidents simply turned them off from banking. It led these consumers to seek out other types of financial providers and eventually led them to conclude that they really don't even need banks to meet their financial needs.

(Audio played.)

MS. BURHOUSE: So, sorry to end on a

downer here with my remarks, but with that I'm going to turn it over to Yasmin to talk about nonbanks.

MS. OSAKI: Thanks, Susan.

Okay, so good afternoon again. Let me turn your attention to how consumers feel about nonbank financial technology providers. In this category, we're including the peer to peer solutions, P2P, and also other banks like fintechs.

Many of these services started as just P2P payments apps primarily used to send money to another person, like PayPal, Venmo, Cash App. And over time these apps have added more features, such as direct deposit, debit cards that you can make payments and withdraw cash, and a lot more functionalities.

And there also is other fintech solutions that were set up to be very much bank-like alternatives from the very beginning. Among this type of fintech, Chime was the most commonly mentioned by participants in our study. And you've heard already a couple mentioned that.

So what do consumers think about these P2P and fintech providers? Well, consumers we talked to had a lot of positive things to say about them.

They overwhelmingly view these apps as very convenient, fast, and easy to use, both to set up and use on a -- frequently. Especially when it comes to sending money, the app is very user friendly and in just a few clicks they can send their -- the money to whoever they need to pay.

Now, among those who had their salaries or their paychecks deposited into these providers, several talked about how they really liked getting paid earlier than they would at a bank. This is how a consumer described it.

(Audio played.)

MS. OSAKI: And we also heard from the study participants that they liked perks and rewards that they get with using the apps. Like the ability to choose personalized discounts at eligible restaurants or retailers, or receive referral bonuses for encouraging others to open accounts as well.

Cash Apps’ boost was the most common reward consumers mentioned in our study. And it gives them cash back or discounts if they use the app in stores or spending categories. And it gives them more incentive then to use the app this way. So let’s hear about how consumer like the feature.

(Audio played.)

MS. OSAKI: And another aspect that was recurrently mentioned by consumers and you’ve heard a little bit of that already is when it comes to sending and receiving money, it is very important to them to have that ability to transact within their network.

Nonbank P2P providers like Cash App, Venmo, and PayPal have an extensive network of users and -- which makes it possible for them to exchange money with a lot more people. And here’s how a consumer explains this network effect:

(Audio played.)

MS. OSAKI: Another big thing that they really like was that these apps are increasingly adding more features. And some consumers feel that these solutions can do almost everything a bank can.

For example, they can get their salaries deposited in there, they can pay their bills, they can get a physical or a virtual card that they can use to pay in person or online. Some offer savings accounts, credit cards. So it’s extensive.

We have a couple of clips here.

(Audio played.)

MS. OSAKI: So a lot more can do that now. And now in the next clip you can hear more about how the consumer feel about how these financial services have evolved.

(Audio played.)

MS. OSAKI: But as satisfied as consumers are about these services, there are also some aspects that the study participants did not like so much. So many think that these -- using these apps is they are more prone to fraud and exposes their money to scammers. In fact, most bank consumers avoid putting a lot of their money in these apps, and sometimes they just fund it right before having to use it.

And because these transfers are made instantly with just a few clicks, it is harder to fix errors if a person incorrectly sends the money to the wrong person. And when this happens, then they feel that they have limited options in how to recover their money.

And another aspect that they mentioned that's not being great was customer service, which is really the flip side of what we heard earlier regarding banks. You know, they dislike that these companies are commonly providing customer service using artificial intelligence rather than humans and pushing them towards digital channels within the app or using email.

And if live customer services is

available, they mentioned that it sometimes is very hard to reach, slow to respond, or uninformed.

And here's a consumer talking about their experience with using Chime customer service.

(Audio played.)

MS. OSAKI: So initially while many thought that the fees that these services charge are acceptable, some noted that there were fees that they were not happy about.

For example, if they want to move their money from their fintech account to their bank account, they can either wait for a few days, or if they want the money immediately, they would have to pay a fee to make that transfer quick.

And then finally, just a few consumers mentioned experiencing issues using their accounts with merchants like an online retailer or a car rental company. One participant in particular mentioned that it took the car rental company a few days to verify his Chime account when he wanted to rent a car.

And doing this research, we can't help but compare it to a somewhat similar qualitative research that we did back in 2015. I think some of you might have been around to listen to our research back then.

But back then, we talked to consumers about how they felt about using mobile technology for financial purposes, you know, in managing their money and conducting day-to-day transactions. But since then, financial technology between banks and nonbanks has evolved quite a bit, and so has consumer behavior and familiarity with using this technology for financial services.

And one thing that stands out, how many more consumers are using different products for specific needs. For example, they use banks if to store most of their money and keep their money safe. They use P2P apps to send money to other people.

They may use a prepaid card or one of

those digital payment services or a P2P app to make purchases online or avoid, to avoid providing their bank information or their credit card information, especially if they're unsure about how safe that website is.

And here is how a consumer explained the diversity of services that she uses. I can't find the mouse. Oh, there.

(Audio played.)

MS. OSAKI: And another aspect that we've seen evolved over time relates to concerns about security and protection as a deterrent for using the financial technology -- financial technology in general, really.

In our, back in our 2015 study, we heard a lot about avoiding using mobile technology and apps because of, for financial purposes, because of concerns of potential hacking and people losing their money.

But as more consumers are becoming more and more comfortable with using this digital solution, they seem more willing to try and also use these solutions in more ways to manage more of their money.

In fact, in our study, a few participants about how they never thought they would be using their phones to pay, to make a payment, but after seeing others do it, then it makes it look easy and convenient and they tried it themselves.

But that is not to say that security and protection is not important to consumers. They are very important, but they are still willing to try these services in favor of conveniences and speed. And instead they find strategies to mitigate this risk, like keeping low balances, or what this consumer does.

(Audio played.)

MS. OSAKI: So that is her strategy to keep her money safe and still use these apps.

Another aspect that consumers brought up several times was rewards and incentives. We heard this quite a bit in our 2015 study, but it wasn’t as salient.

The rewards were typically more in the form of you accumulate points when you use it, used it, you know, the financial service. And then at some point then you cash in on those points.

But in our latest study, the rewards do appear to be a lot more salient in explaining why people are liking these apps. And we suspect that it might have something to do with the interactive nature of these rewards. You know, for example, we talked about that Cash Apps, the boost feature. Well, it gives you discounts for different categories.

Well, these categories change and rotate. So then the consumer needs to go into their Cash App and see what offers are in hand, choose the offer, and then it drives them to use the app in a very specific way. They have to go to the specific, you know, retailer or website and to be able to cash in on the offer.

And then they see that savings in kind of in their history. So it is a lot more interactive and more present in their minds it appears.

So these are some findings that we wanted to highlight today of what some consumers are thinking about banks and nonbank financial providers and what drives them to use them.

But how can we use these insights with banks and stakeholders do to meet the evolving needs and expectations of consumers, especially those that are facing more bank alternatives to handle more of their finances.

What do consumers need to make informed decisions about how to safely use financial services? Well, we heard in the study that many bank consumers were very satisfied with our banking experience.

But among those that were less engaged in banking, including unbanked or those that use other providers to -- for core financial needs like depositing their paychecks, for example, we often heard comments that appear outdated or misinformed.

For example, many equated using a bank to having to go to a branch, and expressed the hassle of having to go for day-to-day things compared to the ability to just use the fintech app that is quick and easy.

Sometimes listening to consumers, it was clear that they were unaware that you can pay other people instantly through your bank account with features like Zelle. So we really can't take for granted that people know how banks' technology has evolved, especially those who have not been in banking for some time.

So there are definitely opportunities to make some consumers more aware of these enhancements to banking services, especially how the more robust mobile banking and features like Zelle can deliver more convenient speedy -- and speedy banking experience.

Then we also heard that many are aware that banks offer Zelle, as you heard in the clips, but many -- but the main issue for them is that the people that they need to pay do not have

Zelle.

So this was more the case with more LMI consumers. And so widening that adoption of Zelle among LMI consumers to improve that network effect could be an important difference for these consumers.

And the third area of opportunity has to do with the fact that many consumers in our research and also in the past, and including unbanked consumers, commonly felt that one of the main benefits of having a long-term relationship with a bank is that it would help them fulfil aspirational goals. So there’s still that connection of aspirational goals and banks.

It would help them qualify for a mortgage when the time came, even if that time is really, really far in the future. But there was still that connection loud and clear in our study.

And this is a benefit that was very distinct to banks and not something that they thought that they could typically get from nonbank providers.

So how we can effectively help though and highlight that role of banks as institutions that can take consumers through that financial growth journey from encouraging credit-building and paths to responsible credit, to promoting financial education and personalized financial outreach to fulfill specific financial goals for them? So what can do to help meet those expectations?

And last but not least, building on areas that are already perceived to be strengths for banks, and that is security and customer service. We’ve already talked quite a bit about customer service and how that is they perceive that it's a lot superior in the case of banks.

But in terms of security and protections, banks and stakeholders including our agency could focus on promoting and clarifying consumer protections, developing accessible resources that differentiate what protections, like deposit insurance, apply and what fraud resolution policies also apply to what type of institutions, to what type of products. And make them aware of simple ways to verify these protections on policies.

And I think with that, I think we've covered a lot, and we hope you've enjoyed this long talk. And you found the research helpful, insightful, you enjoyed the video. And we love to hear your thoughts and insights and reactions. Thank you.

MR. ERNST: Yeah, thank you, Susan and Yasmin. It's a big challenge to try and summarize what you're learning from sort of these qualitative engagements with consumers. You get so much data and so much information. I think you've done a really wonderful job sort of summarizing and crystalizing those key themes that really come through in this engagement.

I'd like to open the floor now. I have some discussion questions, but I'd like to just open first generally to see if members have observations, questions, or points you'd like to make.

Leigh.

MEMBER PHILLIPS: This was so interesting. And one of the things that really struck me, both when I listened to the focus groups ahead of time and again hearing the information today, is the elements of social finance and people's need to exchange money amongst each other. And that's not something that we talk about as often.

We talk about payments, but we're often talking about bill payments or you know, receiving income and those types of things. But not as much about people's real need to exchange money with family and friends. I think that's really interesting.

And also when you think about apps like Venmo, I have this turned off on mine, but you can see what people are sending people more for, which is I don't know why you would want people to do that. But, other than to let me know I wasn't invited to that dinner.

MEMBER MINTZ: I apologize.

(Laughter.)

MEMBER PHILLIPS: But that's another way that people are engaging differently with finance now. It's not as private as it used to be in those regards. And you can kind of see a little bit about what people are doing, and I think that's a really interesting and dynamic.

The second thing that, I love this focus on long-term relationships and what that means, right. And the fact that participants were acknowledging that the fintech products were convenient but they were transactional.

That they weren't really wealth-building products or they weren't going to move them up a ladder. And I think that's really interesting.

But with all the data that we have now, having banks reach out proactively to their customers to let them know what types of things they're eligible for I think is really smart.

I was in a room recently with someone

who worked at bank who was proudly talking about their -- a program or product they had that had improved people's credit scores and shared like, well, people now have credit where they can get mortgages.

And I said well, did you tell them that, right. Like, did you offer them one? You know, like what are the ways in which we can use this type of data and information to build those longer term relationships.

The last thing I think your note about, your insight about personalization is really, really key. I referenced this a bit earlier when I talked about having human-centered but tech-enabled financial services.

We've done some work with personalization recently at SaverLife and in this case, we were -- personalized our platform experience based on if you filed a 1099 or had some kind of income from self-employment.

And so those folks that we had identified saw a different, had a different onboarding experience and different content, different things. We saw a five times increase in conversions of people came to a page that was personalized based on just this one factor of how you earned income were five times more like to join SaverLife.

And we also saw a significant increase in savings behavior. So on average about 58% of our members increased their savings in any given month when people were receiving personalized information and content, in this case again about being an entrepreneur, it increased to 85%, which is pretty remarkable. And that was just our little nonprofit in a pretty low tech way.

So there's just a huge amount of potential in personalizing and finance is not one size fits all, right. And so what we can really learn there I think is really an exciting area.

MR. ERNST: Great, thank you, Leigh.

MS. OSAKI: Let me comment on that if I can. We were very surprised, that was very, very surprising for both Susan and I that we hear people we actually liking when the banks would tell them hey, about this product.

Like Susan and I were saying I feel like I don't want to receive any more brochures or anything. But for us it's a, I guess it's more of a burden.

But these consumers were really appreciative of how they could find out about new financial products that fit them through these outreach.

MR. ERNST: Thank you for the observation. I've got Tom and then I'll come back for Jonathan.

MEMBER FOLEY: Thanks so much. That was great. A couple of things really resonated. So the relationship piece is something we hear in the disability community all the time.

And you know, sometimes that's about a physical accessibility thing or just, you know, the thing that occurred to me during the presentation is people just want to be heard and have somebody they can talk when they're confused or have questions.

So that's a big piece of what we hear in the disability community. And then on the technical side, I know one of the outcomes of the survey were folks with disabilities were I think a fifth less likely to use mobile applications.

And you know, while the big banks do a great job of that, you know, I know at least one of the apps that was talked about that I've tried to use, you know, just you know, sometimes it works and you know, sometimes it doesn't, from an accessibility standpoint.

And so I do wonder if surfacing that question in the future might be helpful and also explanatory around some of the hesitance in the disability community around mobile apps.

Yeah, and then lastly if I can just take a moment, I want to wish Keith a very happy birthday. And you don't look a day over 29 to me, sir.

MR. ERNST: I'm going to take that to the bank. Thank you.

Jonathan.

MEMBER MINTZ: I also want to thank you guys so much for doing this. We all really appreciate it and admire that you did it and appreciate you putting it together in ways that we can digest. So really thank you.

Aside from what's been mentioned and digging into and hearing the voices on things that are not brand new in some cases but helpful, aside from that, a theme that emerged for me as I listened to this a couple times is something that we have sort of steered clear of a little.

You know, we've always tried to be very positive about what we're trying to offer people and not negative. And I, you know, we didn't attack check cashers, we just promoted banks, for example, right.

And I feel like one of the thoughts that's crystalizing in my head is a little bit around this notion of when things go wrong, you want a bank. And I feel like more and more people unfortunately are having more and more experiences with scams, and/or mistakes when dealing with fintech products, whether they're bank or nonbank.

And it just occurs to me that a population that is distrustful also wonders about and cares about what happens when something does go wrong. And I think a theme that I felt like I was hearing in this and in the presentation you all did for us before that everybody but Leigh was invited to, you know, I feel like that was an emerging kind of thought.

Just that one of the things that stood out when it came to banks. And whether it was customer service broadly or fraud remediation or things like that, I just wonder whether it's a theme that we should be thinking about in messaging that we have kind of steered clear of because it felt negative.

MEMBER TESCHER: Can I respond to that?

MR. ERNST: Yeah, please, Jennifer.

MEMBER TESCHER: Ah-ha. I think we

should also remember that this is 63 people that they spoke to. And no offense, Naomi, but there's quite a significant conversation going on around fraud rates with the use of Zelle, as an example. I'm not singling out or criticizing it. It's a longer conversation.

My point is just that while these 63 people may have said it seems like it's easier to get a hold of someone at a bank because I can walk into a branch or I could talk to someone, I don't necessarily think that that means that in their experience, banks are safer, more trustworthy, less like to -- for me to have had a problem, whether that's an overdraft that I didn't expect or a fraud incident.

So I would just be careful about going on the negative, because this may make it seem like one is so much better than the other, but I think the issue is that people have had challenging experience all around.

MEMBER MINTZ: Yeah, just to clarify, that's not really what I meant. I was talking about when people have, not where will they have a bad experience but if they have a bad experience, which bank or nonbank sector is the one that's going to help them resolve it is sort of more what I was thinking.

MEMBER TESCHER: And I get it. But it's just a tough thing to say when oh, yeah they, whoever it is caused the problem. But boy, they're going to be there to maybe help me fix it despite the fact that -- you know, that the perception is that they caused the problem in the first place. It's not really much comfort to say oh, but they're now help me fix it.

MEMBER CAMPER: Okay, so I said none taken, but let me just --.

It is a longer conversation on fraud, and I do think when there have been discussions naming Zelle or other providers, I think it's really important to keep in perspective the percentage rates. And in fact it may in fact be lower, but there's a high volume and there's also more scrutiny of regulated institutions, and rightly so. That's fine.

But I do think one of the things, you know, negative campaigns are effective, and sometimes for good and sometimes for ill. But fraud, and this is something we feel really strongly about, is all of us against the really bad guys.

MEMBER TESCHER: Yeah.

MEMBER CAMPER: And so it needs to be an all-of-government and industry and consumer group approach because the sophistication and the relentlessness of the truly bad guys is something that we need to unite against in, whether it's, you know, that -- a great topic for another day.

And we welcome that, but I think sort of getting into the small ball like which payment app is better or worse sort of lets the other piece off the hook.

MEMBER TESCHER: I think that's really well said, Naomi.

MR. ERNST: Brandee, I see you.

MEMBER MCHALE: Just to close out that

piece of the conversation, I would consider myself, having worked in a financial institution on and off for 30 years a pretty sophisticated person around financial products and services.

Nothing has induced more fear and terror in me than having to send money -- a wire transfer and the letters like I'm closing on a house, like you will not get your money back. You are on your own. If you, you know, all those things.

So I would just say, and I raise that because I think that a topic we should be thinking about is how fraud is being enabled and there are new, you know, artificial intelligence, new technologies are fueling that, but at the same time can also be an antidote to the fraud. Versus I think an unintended outcome turns into consumer, you're on your own, consumer, beware.

And I do think that there are technologies that are in development that may be able to balance this out.

I'll also just say fascinating to me

that the focus group participants noted that they liked having someone to call because increasingly the someone to call isn't actually thinking or doing anything. They're just following an artificial intelligence script.

So that perception that somebody's helping me, it's actually you can get the same self-service help, it's the same artificial intelligence menu. But that feeling of there's somebody on the other line does make a difference.

So I do think just as a general topic for us to think about AI as a force for good in this space. And would love to see, it's probably too early for consumers to really engage in a dialogue, but I'm curious in future iterations of this to see how that's perceived.

MR. ERNST: So we've been talking about through consumers' different perceptions of protection from fraud or security when dealing with banks and nonbanks, and I wonder if any members of the committee have any observations about how consumers are perceiving the two, right.

At the beginning we talked about sort of what were the things consumers were looking at and thinking about when they perceive banks. I mean, some of those things, you know, were clear and helpful depictions. Some blurred the lines between what actually are banks and are nonbanks.

And I wonder if anything stood out for you and if you had thoughts about how to help consumers understand that difference better.

MEMBER MINTZ: I'll just, I'll start real quickly. I would go -- I would deepen the topic, broaden the topic a little bit. We not only face this challenge with consumers, but we have found through our network of coalition partners and our networks of financial counselors that even having them sometimes appreciate the difference, right.

If they're the midwives of getting people into the system, that's what we tend to focus on the more sort of wholesale systems. And even that has been complicated. In some -- in the early days, the complication was sort of well, what's the difference if you can get your basic needs met and it's cheaper, grab it.

But I think that as we have been banging the drum about the differences and the significance of the differences and the risks, we continue – what's your word, Vicki -- struggle, we continue to struggle with getting that message across to the middlemen.

MR. ERNST: Even the somewhat experts.

MEMBER MINTZ: Yeah.

MR. ERNST: In the situation.

Leigh?

MEMBER PHILLIPS: Just to violently disagree with you, mildly disagree with you, but you're also looking at people's actual experiences. And as I shared earlier, 60% of people, the lowest income people, are getting charged overdraft fees and other fees by their bank. So that's an erosion of trust right there.

That’s not happening in a lot of the fintech. Now, we’ll see how this all, you know, plays out as those companies seek to become profitable and what that really looks like from a consumer experience.

But right now, our members at least report slightly higher satisfaction rates with those who use fintech as opposed to those who use banks.

MEMBER LIBBY: And I would just add to that, I think one of the things that we hear from young people is the transparency that they get from Cash App is much preferable, especially with regard to overdraft, to experiences that they’ve had with banks.

And I think there is this sense that Cash App has my back because they let me know, you know, they get notifications when their balance is at a certain level or when there’s a transaction coming that they may not be able to cover.

And I think that there is this

perception, I think you alluded this, or excuse me, alluded to this earlier, Leigh, that there are -- like technology as it's evolving sort of offers the experience of good customer service, even if it's not a human offering you that customer service.

There's enough of a dialog or a feedback loop with Cash App that I think it's, helps people manage their money in a way that's different. And so we see that as a big trust point for them and one that has moved a fair amount of the young people that we work with away from banks.

MR. ERNST: Can I ask you just to go a little bit deeper on that? So I, you know, it's most banks today I think, you know, I'm going to go ahead and make an assumption here, have sort of low balance alerts available to their customers, right. Certainly most large banks have those available.

And so do feel like with the youth you're working with, they don't perceive that, or is there some other difference in their mind?

MEMBER LIBBY: Well, I think they've experienced overdraft, and with multiple transactions sort of racking up. And I think sometimes one of those is enough to just say I'm done. And when they get the notification that's like are you sure you want to do this, that's the app having their back.

MR. ERNST: Okay.

MEMBER LIBBY: So they're not going through with something because they're getting that feedback loop. So I think that's -- I don't know if that answers your question.

MEMBER MINTZ: Well, and a lot of those low balance alerts aren't automatic with banks, though, isn't that part of the issue, right? Whereas with the apps, they are sort of their feature.

MEMBER LIBBY: Right, you have to opt in.

MEMBER MINTZ: You have to opt in, right.

MEMBER LIBBY: Yup.

MEMBER CAMPER: It’s a conversation worth having, and I want to check in to sort of what’s -- there are also different oversight structures and compliance structures about when you can contact customers and not. I mean, I know that you’re right, banks have by and large low balance alerts.

I mean, you can opt in to whatever. It may be the opt in, opt out. But you also have to opt in to overdraft, a whole other conversation that we don’t want to get into and you know, bank on accounts don’t allow overdraft.

So there=’ probably at least some education optionality sort of issue that may not be available through some of the Cash App types, I don’t know. But it’s certainly worth discussing.

MEMBER TESCHER: I want to name something here. This is a great conversation and exactly the right one to be having. I think what, like what we heard from these consumers is that the experience matters the most. What we're talking about, everything we're talking about is about the customer experience.

And one of the challenges we're having is there's a desire for us to tell people, well, a bank is better. But that's our perspective and judgement, given where we sit. And so then we think about well, what's better about a bank, right.

If the experiences are now equal if not better one way or the other, right, what is better? Well, it's safer. Well, maybe it's safer for me but not for you because -- so.

And then to your point, Naomi, like rather than going to well, banks are more -- are safer, but they're also more regulated and as a result, I can't opt someone in to that.

Like, I actually think we should use these insights to go exactly the elements of the experience where banks might be hamstrung and might we worth actually revisiting, right. Because it turns out that's actually what consumers want.

They're not – it's not that risky, and it's a bigger risk to have someone outside the system than inside the system and we opted them for a low balance alert, as an example.

It's hard to have a conversation about the experience because we're so used to talking about it either in terms of products and services or features and functions or fees and regulations. But that's for me the biggest takeaway of this incredible work that you did.

MR. ERNST: I think I should do that soon, but you if you have one more comment.

MEMBER PHILLIPS: I think Jen kind of hit the nail on the head. In some of these other fintech products, they're not just saying your balance is low. They have some tool saying, your balance is low, would like us to spot you 50 bucks for free until, you know, you get paid? So there's actually a solution built in.

And then also to Jen's point around sometimes the things that maybe we have put in place to protect people don't always work that way, if you've banked at the same place for a really long time, maybe you don't know about the new features and things that they -- that they now offer.

My credit union didn't connect to anything and now it does, but they didn't tell me that, right. And so I think that there's also some proactive outreach that banks could be doing to let people know, remind people hey, once a year, do you want to turn on these features. Or if you have an overdraft, would like to turn on this feature. I think there's a lot -- that we could do that.

MR. ERNST: One of the – I'm going to wrap us off topic. One of the distinguishing characteristics of qualitative research is that it is not quantitative research.

That it is hard -- to define it -- it is hard at the end of the day to make an objective judgement about like where does the weight of evidence fall. What it does help us do is sort of surface really interesting ideas, and I think the conversation's reflective of that.

You heard this morning that some of the things we talked about in terms of customers' sense of safety doing business with banks is part of the topic that we're exploring with adding new questions to the unbanked survey to sort of unpack the concept of trust and some of these other reasons households give us.

So we will take sort of what we're hearing here and move it into some of our quantitative work to try and come back with more information and gauge it. But I think this conversation has also surfaced lots of other ideas that we can explore in a variety of ways in the meantime.

So I want to appreciate everybody for the engagement, the rich comments, and going to do my part to help keep us roughly on schedule. So thank you very much.

MS. ORTIZ: All right, thank you, Keith, thank you, Yasmin, thank you, Susan.

All right, so we do have time for a short break, all right. Can everyone try to be back here as close to three o’clock as possible?

You guys are like my 17-year-old, if I say three, I know it’s 3:05, so I’m saying three.

(Whereupon, the above-entitled matter went off the record at 2:54 p.m. and resumed at 3:08 p.m.)

MS. ORTIZ: All right, we're going to start back up. All right, welcome back, everyone. This is our last panel of the day. It is, in fact, our shortest panel of the day, but it has the longest title, and so I'm going to turn it over to Luke Brown so he can share it with you.

MR. BROWN: Good afternoon. Yes, we decided to have a long title for this particular rule, but good afternoon. We're excited to have this conversation today. Looking forward to having your feedback.

So, our presentation today focuses on

a notice of proposed rulemaking that the FDIC recently issued to establish new standards to strengthen the recordkeeping requirements for certain FDIC-insured banks.

The proposal covers deposits received from non-bank companies that have accepted those deposits on behalf of consumers and businesses. The proposed rule is intended to promote the FDIC's ability to promptly make deposit insurance determinations in the event of a bank's failure, enabling the FDIC to pay deposit insurance claims as soon as possible following a failure.

The proposed rule is also expected to benefit consumers and depositors by promoting timely access to their funds even in the absence of a bank failure. By issuing the proposal, the FDIC seeks to protect depositors and promote public confidence in insured deposits.

Joining me today for the discussion are Meron Wondwosen, Assistant Director in the Division of Depositor and Consumer Protection, Shivali Nangia, Assistant Director, Claims and

Strategic Operations from the Division of Resolutions and Receivership, as well as James Watts, Counsel in the Legal Division.

After our formal presentation, we're happy to answer any questions that you might have. With that, I will pass the baton off to Meron to start the conversation.

MS. WONDWOSEN: Thank you, Luke. Good afternoon. The FDIC Board approved the issuance of the proposed regulation on September 17, 2024. Deposit taking in the financial services industry has evolved, resulting in IDIs gaining access to deposits through third parties in increasingly complex relationships.

These changes created new options to deliver financial products and services to consumers. However, they have also created risks for consumers, including confusion regarding the applicability and availability of deposit insurance to protect their money from loss.

Furthermore, the risks that can be presented by certain custodial account arrangements have been underscored by the recent bankruptcy of Synapse Financial Technologies, Incorporated.

The proposed rule is intended to address the ongoing transformation in how financial products and services are being delivered to consumers. Increasingly, consumers are gaining access to banking products and services through apps and websites operated by non-bank companies.

Coupled with technological innovations and advancements, custodial deposit account arrangements have transformed the industry in many respects. Increasingly, many consumers are choosing to open deposit accounts online or through mobile applications, indirectly through non-bank companies to make purchases, send or receive money, and pay bills.

These non-bank companies' accounts at banks often, though not always, are established as custodial deposit accounts. These deposit accounts can hold the funds of many thousands of consumers and businesses.

These developing arrangements involving non-bank companies have created risks for consumers, including confusion and uncertainty regarding whether their deposits have actually been placed in a bank, and if so, in the event of a bank failure, whether deposit insurance is available to protect their money from loss.

These arrangements have also increased risks that the FDIC will be unable to make prompt and accurate payment of deposit insurance in the event of a bank's failure since the FDIC can only pay deposit insurance claims if it can identify the actual consumer who owns the funds held at the bank at the time of the bank's failure.

Synapse, a technology company, was a party to deposit arrangements involving banks and financial technology companies. Synapse's bankruptcy has affected consumers' ability to access funds placed at banks for a number of months.

Since May 2024, the FDIC National Center for Consumer and Depositor Assistance has received more than 1,000 inquiries and complaints from consumers raising questions, concerns, or expressing frustration regarding the Synapse bankruptcy.

This recent event has resulted in significant and ongoing harm to many consumers who may have believed that their funds would remain safe and accessible due to representations made regarding placement of those funds in FDIC-insured banks.

According to public reports regarding Synapse's bankruptcy proceedings, Synapse's bank partners have encountered significant difficulties in obtaining, reviewing, and reconciling customer records, and FDIC staff believe that these circumstances have raised concerns about the accuracy and integrity of those records.

At this point, I'd like to turn the

presentation over to Shivali Nangia, Assistant Director in the FDIC's Division of Resolutions and Receiverships, who will discuss the risks certain custodial account arrangements present regarding the payment of FDIC deposit insurance.

MS. NANGIA: Thanks, Meron. Good afternoon, everyone. The FDIC has long recognized the role of custodial accounts in the banking system, and the FDIC's deposit insurance regulations accommodate these accounts through the concept of pass-through insurance.

Pass-through deposit insurance is a mechanism for recognizing the owners of deposited funds and insuring their interests in the deposits to the same extent as if the owners had deposited the funds directly at the bank provided certain conditions are met. Generally, the FDIC makes determinations about pass-through deposit insurance coverage upon a bank's failure.

For many third-party arrangements, the FDIC may in part rely on the records other than those of the failed bank, including the records of a non-bank, to identify insured depositors and their insured deposits. Under the pass-through insurance regulations, such records must be maintained in good faith and in the regular course of business.

The events following Synapse's bankruptcy highlight the risks that can manifest when a bank and its third-party partners do not maintain accurate records for custodial accounts. Deficiencies in recordkeeping may impede the FDIC's ability to make a deposit insurance determination in the event of an insured bank's failure.

While none of the banks that had business arrangements with Synapse have failed, the difficulties encountered by the parties obtaining, reviewing, and reconciling Synapse's records against the bank's records would likely have also hindered the FDIC's ability to make a prompt and accurate insurance determination in the event one of the bank's had failed.

Prompt payment of deposit insurance to

depositors is especially important when consumers support their day-to-day financial needs through use of deposit products accessed through a third party. The FDIC has a statutory obligation to pay deposit insurance as soon as possible following the failure of an insured bank.

Typically, the FDIC provides depositors of a failed bank access to their insured deposits within a few business days of the bank's failure. However, if a bank has an arrangement with a third party where custodial account recordkeeping is inadequate or unreliable, this may hinder the FDIC's ability to promptly pay deposit insurance.

In the event of a bank's failure, the FDIC must have the ability to quickly make deposit insurance determinations and pay deposit insurance to all insured depositors. This requires accurate and complete records to support a deposit insurance determination irrespective of who maintains the records.

Because delays in paying deposit

insurance could undermine the confidence in the banking system more broadly, FDIC staff believes that these issues are best addressed in a consistent manner across the industry through rulemaking.

At this point, I'd like to turn the presentation over to James Watts, Counsel in the FDIC's Legal Division, for a summary of the proposed rule.

MR. WATTS: Thanks, Shivali. Under the proposed rule, new recordkeeping and internal control requirements would apply to custodial deposit accounts with transactional features. We'll get to exactly what that term means in a moment.

The proposal would require that for custodial deposit accounts with transactional features, banks would maintain records of the beneficial owners of the accounts. Those records would identify the beneficial owners of the account, the balance attributable to each beneficial owner, and the ownership category in which the person holds the deposited funds. The proposed rule also would provide a specific electronic file format for maintenance of those records.

The accuracy and completeness of these records would be necessary to the FDIC in the event of the bank's failure as they would enable a prompt payment of deposit insurance, but these records also might reduce the likelihood that consumers would experience significant delays in accessing their funds in the event of a bankruptcy of a third party because the bank would have the records necessary to determine who owns the deposited funds.

As I mentioned, the proposal would create recordkeeping requirements for banks with custodial deposit accounts with transactional features. The proposed rule’s provisions would include a list of account-based exemptions.

The proposal would require banks with custodial deposit accounts with transactional features to maintain internal controls appropriate to their size and the nature, scope, and risk of their activities, with two specific requirements.

First, the bank's internal controls would include maintaining accurate balances of custodial accounts with transactional features at the beneficial ownership level. Second, the internal controls would include conducting reconciliations against the beneficial ownership records no less frequently than as of the close of business daily. The reconciliation requirements intend to address the completeness and accuracy of transaction records.

In addition to the internal control requirements, the proposal also would require banks to submit an annual report and certification of compliance. The annual report would include, among other things, information on accounts subject to the proposed rule and the results of the bank's testing of the recordkeeping requirements.

The proposed rule's requirements

would apply to a class of accounts defined as custodial deposit accounts with transactional features. That term would be defined as a deposit account that meets three requirements. The account is established for the benefit of beneficial owners, essentially meaning it's someone else's money, not the account holder's money.

Two, the account holds commingled deposits of multiple beneficial owners, and three, a beneficial owner can authorize or direct a transfer through the account holder from the account to a party other than the account holder or beneficial owner. Staff believes that this definition would include, for example, omnibus custodial accounts that are used to make payments on behalf of consumers.

Under the proposed rule, banks which hold custodial accounts with transactional features would be required to maintain records identifying the beneficial owners of those deposits and the account balance attributable to each beneficial owner. In other words, the records would identify who the owners are and how much of the money in the account belongs to each of them.

Now, a bank can also meet the recordkeeping and other requirements of the proposal by maintaining records, as permitted by the proposed rule, through a third party. And at this point, I'll turn the presentation back to Shivali to discuss how a bank which maintains records through a third party can comply with the proposed rule.

MS. NANGIA: Thanks, James. As noted previously, the proposal also acknowledges that many banks, including community banks, regularly employ third parties such as vendors and technology service providers to assist them in carrying out a variety of banking functions.

As a result, the proposed rule would permit records of beneficial ownership to be maintained by the bank through a third party such as a vendor, a software provider, or the account holder if certain requirements are satisfied. These requirements are intended to promote access to and integrity of the necessary records.

First, the bank would be required to have direct, continuous, and unrestricted access to records maintained by the third party in the format described in the proposal, including access in the event of business interruption, insolvency, or bankruptcy of the third party.

Second, the bank would be required to have continuity plans in place, including backup recordkeeping, for the required beneficial ownership records and technical capabilities to ensure compliance with the proposal's requirements.

Third, the records maintained by a third party could only be used to satisfy the proposal's requirements if the bank implements appropriate internal controls to accurately determine the respective beneficial ownership interests associated with the custodial deposit accounts with transactional features, and conduct reconciliations against the beneficial ownership records no less frequently than as of the close of the business day.

Finally, the bank would be required to have a direct contractual relationship with the third party that includes certain risk mitigation measures. I'll now turn the presentation back over to Luke for concluding remarks.

MR. BROWN: Thank you, Shivali. So, FDIC staff believe that this proposal represents an important set of new guardrails and controls that would apply to insured institutions across the country going forward, and we look forward to having a good conversation with you about them.

I just want to mention, of course, we're in the rulemaking process, so while we can answer most of your questions, there might be some that we cannot answer, for example, any questions related to what a final rule might look like. However, we're happy to engage in a conversation. Jonathan?

MEMBER MINTZ: I have a regulatory

question and a compliance question about the proposal.

MR. BROWN: Sure.

MEMBER MINTZ: So, the regulatory question is am I correct in understanding that this only applies to pooled accounts? I think I'm using the right term.

MR. BROWN: Well --

MEMBER MINTZ: In other words, that if a middleman creates individual accounts, the rule would not apply?

MR. BROWN: It applies to pooled accounts with transactional features --

MEMBER MINTZ: Right.

MR. BROWN: -- which means the inflows and outflows of funds essentially.

MEMBER MINTZ: And so, middle, third-party banking, non-bank providers in the middle like a Synapse or something. Some of them, if I'm right, create individual accounts, right, or are they all -- is it always a pooled account model in the market?

MR. BROWN: So, it depends on how you -- so, some of them are DDA accounts --

MEMBER MINTZ: Yeah.

MR. BROWN: -- which are still for the benefit of, and that would meet the definition.

MEMBER MINTZ: Got it, got it, okay. And here is my compliance question. If the third party uses the right form and hands it to the bank and says this is the information, and the bank says got it, noted, check, is there more due diligence contemplated by the proposal than receipt of information? I mean, would an examiner -- I don't know if you can answer this question, but would an examiner look at due diligence efforts or is it just the information, there's an assumption that the information is accurate?

MR. BROWN: So, I don't quite know what you mean by information, but let me just generally say --

MEMBER MINTZ: You know, the account, the person and the money, that sort of information.

MR. BROWN: Okay, so a bank would be responsible in these relationships to maintain records for some 30 specific data elements related to the consumer. So, the data covers who the consumer is, it defines what the balance is, and there would need to be in place really important controls.

On a daily basis, if the proposal is finalized, a reconciliation must be done. The way the proposed rule is structured, it describes internal controls, and reconciliation is an example of an internal control. So, there's a range of things that we would expect a bank to do. Reconciliation is only one example.

If the rule were to be a final rule, it also would require specific policies and procedures that the bank must maintain outlining all of the steps that they're taking to ensure that this data is accurate.

One of the most important controls is, and this is may not currently be consistency being done in the market, is a separate, independent validation that would be done at that third party, so essentially boots on the ground going into the third party, looking at their books, and confirming at least once a year that their information is accurate, and then that information has to be reported to the bank on an annual basis, and then that information is reported to the FDIC and the primary federal regulator. Jennifer?

MEMBER TESCHER: Thanks for this. I have two questions. One is I just want to say this seems so blindingly obvious that it pains me to think that a rule needs to be written that a bank needs to reconcile account information even in an FBO account.

My question is, my first question is if it's a pooled account, is there anything in the proposed rule that specifies that third-party operating funds or funds that don't belong to any of the names of customers in the pool, those funds can't be commingled?

MR. BROWN: There's nothing that addresses that, but the rule focuses on the individual consumer and making sure that all of those funds are accounted for.

MEMBER TESCHER: And then I want to build on Jonathan's question because I find this very confusing. My assumption was that the reason why folks used pooled accounts, where someone was keeping track of whose money is whose, but they're not individual DDAs, is because it's cheaper.

But what I thought I heard you say was that that's only one approach and some people are using DDAs, but that those are FBO accounts also. I mean, if they're just a regular old DDA, isn't -- the bank is keeping track of everyone's individually owned DDA account balances, right?

MR. BROWN: You would expect that, yes.

MEMBER TESCHER: But that's not the case today in all cases?

MR. BROWN: Well, we identified a

number of issues and we -- so, we structured this rule generally to apply to a range of types of account structures --

MEMBER TESCHER: Okay.

MR. BROWN: -- and we wanted a consistent standard across all banks, so we would expect a bank to very specifically know whether it's a DDA, or whether it's a custodial account --

MEMBER TESCHER: I see.

MR. BROWN: -- who the consumer is and all of those 30 data elements I mentioned before --

MEMBER TESCHER: I understand.

MR. BROWN: -- and check on a daily basis. So, for example, if they see some sort of an inaccuracy or discrepancy, they should be addressing that every single day so that there's not a surprise down the road.

MEMBER TESCHER: Yeah, and so given everything, this is a question about potential outcomes from an economics perspective. Would you imagine that one impact of this rule might be that banks that choose to work with third parties in this way would simply move to individually-owned DDAs as opposed to a pooled model?

In other words, and this isn't a criticism of the rule, is the rule, the requirements of the rule going to create the same cost burden that already exists with a DDA, and so the notion of a pooled account becomes irrelevant?

MR. BROWN: Sure, sure, and others might want to jump in here because I feel like I'm talking a lot, but we understand that there are various scenarios and various use cases, and some of these transactions and these structures are extremely complex.

So, we tried to structure the rule to accommodate that, but we have a series of questions that are very specific to the types of questions that you're asking around are there loopholes, for example? And so, we will be looking very closely, and we look forward to any public comments, by the way, that anybody has --

MEMBER TESCHER: Sure.

MR. BROWN: -- because we do want this structure to be as tight as possible, because obviously -- and at the end of the day, you know, we're recommending this for a number of reasons, including if these transactions aren't accurate and complete, the FDIC can't do its job --

MEMBER TESCHER: Yeah.

MR. BROWN: -- our statutory obligation if a bank fails, is to get funds to a consumer as soon as possible. So, any feedback anybody wants to share on how it could be tighter, we'd like to see that.

MEMBER TESCHER: Thanks.

MR. BROWN: Thank you.

MS. NANGIA: Let me just add just a couple of things, Luke?

MR. BROWN: Please.

MS. NANGIA: So, to your point, Jennifer, it is more profitable or economically viable for a third party to use a pooled account.

It is cheaper that way and I think that's the way, even though they can move to the other model, that's generally what we see in the industry today. Now, what happens in the future is yet to be determined, but the rule is forward looking, so no matter which way they do it, the rule would apply.

Now, having said that though, the elements which we are asking the industry or the third parties to track, or the bank to track, they are generally maintaining those, but I think this allows for that structure, the conformity across the industry so all of the third-party providers have the same standard which they have to meet, which helps us achieve our mission.

MR. BROWN: All right, Naomi's been over here patiently waiting. Apologies. I was looking to the right and not the left.

MEMBER CAMPER: Thank you.

MR. BROWN: It looks like Mike is next.

MEMBER CAMPER: Thank you very much,

and recognizing that this is an open rulemaking, I'll run through just a couple of questions that we have. So, on October 18, a group of eight trade associations, including ABA, respectfully submitted a request for extension.

There were a lot of RFIs and proposed rules on deposits, broker deposits, all of these things, really, really important topics, many of which call upon the same staff at various banks as experts, and that's a lot of responses in a very tight time period. So, our hope is that you received that request for extension so that this is not due the day after we come back from Thanksgiving.

The extra 60 days, I think, would allow for the industry to provide the thoughtful responses that I know you want and are looking for. When it's all bunched up, it constrains the level of detail that staff can put into responding to very similar leads or requests in the same area, so.

MR. BROWN: Understood.

MEMBER CAMPER: Okay, you received those?

MR. BROWN: Yes, we're in receipt of the request.

MEMBER CAMPER: Okay, okay.

MR. BROWN: The FDIC has very seriously been considering it --

MEMBER CAMPER: Okay.

MR. BROWN: -- and we expect to provide additional information in response as soon as we can.

MEMBER CAMPER: That's wonderful. We would really be grateful for that. A couple of other points, and knowing, again, that it's an open response and this will be detailed in a letter that we'll submit, one thing that we want to alert you to is to make sure that the proposal is tight around sweeping in those accounts that come with a reasonable consumer expectation of insurance and not sweeping in types of accounts where there isn't a reasonable expectation of insurance.

Another point would be my understanding, and again, I am not one of the experts in this field, so I'll convey this with as much precision as I can, our understanding is that the compliance is retroactive, and so allowing for sufficient implementation and compliance dates, recognizing that it's backward as well as forward-looking, would be greatly appreciated. I have one more, but it's a little bit further afield, so I'll --

MR. BROWN: Thank you.

MEMBER CAMPER: -- come back if there's time.

MR. BROWN: Mike?

MEMBER CALHOUN: Yeah, I may have this confused, but I'm just trying to look at it from the perspective of consumers using these services, and an underlying problem is they don't know whether or not they've got FDIC insurance. I'm worried that this -- and hopefully you want people to comply, but as I understand the rule, if the third party has not maintained the adequate records, the consumer is left out hanging to dry with no insurance, assuming if the third party has financial distress, which does not seem like an optimal outcome, and it's very hard for a consumer to shop and say I know that the third party is reliable. I don't have anything to worry about.

I mean, so I just want to really flag that, that -- and I don't know if there's a work -- what the workable answer is, but is there some way to again tie this to -- the biggest problem is third parties are out there telling people essentially you've got insurance.

I mean, they're doing it today in some vague, sometimes vague words about the money will be deposited in an FDIC account. They don't necessarily say explicitly that means it's insured, but that's what a lot of people understandably take away from it and that's what the third-party vendor hopes they take away from it because they're trying to use that as a marketing feature.

But is there a way to come at this, you know, differently to not only say this is an obligation -- I mean, I know you'll supervise, but to put more burdens on the third parties to, one, I mean, to proactively, that the burden is on them to proactively, you know, get you information whenever, a confirmation of it, because we have seen third parties don't always comply, but it just seems like this is sort of the worst of all worlds from a consumer view.

They're going to keep saying we deposit it in an FDIC account. You're going to tighten the standards for their getting, actually being insured, and the consumer holds the risk of the third party screwing up, and that's the whole problem that we're dealing with to start with. I may be missing it in all the wrong way.

MR. BROWN: No, you're -- and I've got an insurance deposit expert here or two that can jump in and add their thoughts. I could spend an hour replying to your question and the point you're making. You're hitting on the core of the purpose of this rule.

So, for example, if we don't know who, or the bank does not know who the consumer, that is, the beneficial owner of the funds, is or what the balance is, we can't pay the deposit insurance claim, so we're very focused through this rulemaking on ensuring that the records are accurate and complete on a daily basis.

Obviously, the FDIC can only act based on our authority. Our authority is driven through insured banks. At the same time, we've used a number of tools, including requiring that the bank enter into contracts that are binding with the third party, that incorporate the controls that we've been talking about in this presentation, and again, a requirement that a third party be audited on the ground in their organization.

So, consistent with our authority, we think it's important for the bank, obviously if they're in these relationships and they're benefitting from them, part of it is that these are funds at a bank, so a bank should know who the consumer is and they should know what the balance is.

And particularly, as you say, at the consumer end, they're looking at these transactions through an app, and is it a bank? Is it not a bank? Have my funds been deposited at a bank? So, there's a lot of questions for the consumer.

So, from the FDIC perspective, you know, again to use the word core, this also goes to the core of our mission. So, that's why, from the risk perspective, it was a priority for us to issue this proposed rule, but I'll stop there and see if others want to jump in.

MR. WATTS: Yeah, if I can jump in on one point too, it's kind of a subtle distinction, but I want to draw it out and then try and make sure this is clear. The proposal here would not amend the rules for pass-through deposit insurance or the deposit insurance coverage rules in general and ratchet up the standard, for example, of what it takes to be covered. It wouldn't do that.

What we would be doing through these recordkeeping requirements, I think, and the hope is making it much more likely that the information that is required to meet those requirements, the information on who the owners are, how much each person owns and so on, that that information is available, that it's accurate, that it's complete, and it's going to be available hopefully more quickly.

In a typical failure scenario today, the FDIC will reach out after the bank fails to get that information. Hopefully, that information will be available even more quickly, and it will be already checked for sort of the integrity under the safeguards that are in the rules, so that's the intent here.

MEMBER CAMPER: Can I ask just a quick follow-up to Mike's other point about the third parties? I think you guys were asked by some members of Congress about whether you did have the authority you needed under the BSCA to examine the third parties, and I think that was a few weeks ago, and I'm not sure whether you figured out whether you have the authority to do that examination of those third-party tech companies as well, but I think that would also be of interest.

Because obviously, banks need to follow the rules, and have good records, and, you know, maybe it is not breaking news, but to the extent that there is another third party involved, I think it would be helpful for them to have some supervisory oversight as well.

MR. WATTS: I mean, there's probably not a lot I can say in terms of -- I don't have the expertise on how far the Bank Service Company Act would stretch in terms of authority to reach those types of entities in all the scenarios. I don't know if others have anything to say.

MR. BROWN: Well, I can say that we, so we understand our authority in that space, and there are circumstances where we can go and look at a third party, and again, that's related to the relationship with a bank.

So, for example, the FDIC, along with the fed and the OCC, currently examine the core processors on a regular basis consistent with that authority because of their relationships with the bank, and so certainly, we'll use that authority when we can and when it's appropriate.

MEMBER CALHOUN: Can I ask one follow-up? Is it -- go ahead.

MR. BROWN: I think Leigh's next.

MEMBER PHILLIPS: Did you want to follow-up, Mike?

MEMBER CALHOUN: Is the audit an internal or external audit? An external seems to have more clout and may create liability, so somebody has got a financial interest in making sure these accounts are being tracked accurately.

MR. BROWN: The audit of the third party that's discussed in the regulation?

MEMBER CALHOUN: The audit that has to be done when you're referring to the audit that's done as a count date.

MR. BROWN: Yes, it would be an independent third party. Just think about it from almost -- it's not financial. It's transaction focused, but think about, I won't mention the companies, but the top accounting firms going into a third party, and of course, their reputation is on the line in terms of that independence. We would expect that kind of approach here in this scenario as well.

MEMBER MINTZ: I think we may have addressed in the proposal though the possibility that perhaps the bank would want to have its own audit function engaged in that review as well, so I think we did mention that to some extent in the preamble.

MR. BROWN: Thank you. Thanks.

MEMBER PHILLIPS: So, I may be the only member of the committee with the dubious distinction of once being a customer of Synapse Financial Technologies.

(Laughter.)

MEMBER PHILLIPS: We, at SaverLife, acquired another nonprofit back in 2021, and when we acquired that nonprofit, we also acquired their contract with Synapse Financial Technologies. Luckily, it was a very small user base at that time. It had fewer than 100 accounts in this kind of Synapse evolved ecosystem. It was an employer-based savings program.

We conducted our own kind of due diligence over a period of time and, you know, eventually concluded that even though we think we are a tremendous organization, that a small nonprofit organization really had no business moving people's money around.

I wish others made that same conclusion, that it was simply too risky, and not just for our nonprofit, but also for the clients that we care so much about, to continue in that kind of a relationship, as well as the fact that the company already had a pretty bad reputation in the field.

So, we ended that relationship with Synapse. We have no intention of moving people's money or accepting deposits, but I will say that the barrier to entry was very, very low, you know, and so there were no real requirements that you have compliance people on your team, that you have info sec people on your team, that you even have full-time engineering on your team.

And so, now we, on the one hand, there's a lot of great innovation, and we talked so much today about how popular some of these products are with consumers, and I think this rule is going to be really good for industry. I think industry will benefit from these guardrails and also, obviously, customers will benefit too.

We did submit a comment, so I won't go into too many details, but there's a couple of points that I did want to highlight. One, again, to speak to this, what is the rigorous due diligence that banks should do on these fintech partners?

They should be assessed for the

financial health of the company, their team's expertise, what kind of positions, what type of personnel that you're required to have, and what's the viability of their business?

You know, I think one of the things that's interesting about financial technology or this sector is that one way that a company dissolves is if it fails, but another is that it succeeds and it's acquired, and what happens in those instances to customers?

So, I think much more due diligence should be required of fintech commerce. It shouldn't be that, you know, anyone can stand up an account, a deposit receiving product in a matter of days, contingency plans for distribution of partnerships so that customers aren't left in the situation that customers at Yotta, or Juno, or some of the other companies affected by the failure of Synapse.

So, what are the plans that the bank has in place to ensure continued access to funds and services while a partnership may be dissolving? And that may be dissolving because the fintech has failed, because it's been acquired, because the bank doesn't want to partner with this particular fintech anymore, or any other reasons.

We would also recommend that fintechs be required to have an operating reserve that allows the continuity of service to consumers in the result of a failure, and it's not just one minute, you can access your money, and then next minute, there's no one for you to talk to.

And then on the point of FDIC insurance, of course, we advocate for clear FDIC insurance representation. The way, to Mike's point, that a lot of this is phrased right now on the fintech apps is, you know, yes, your money is insured at this bank. It should explicitly state that it's not insured should our company not be successful.

One of the fallouts from this has been a reduction in trust and trust in the FDIC. If you read the Reddit channels, threads about this topic, there's a lot of discussion there about look what happened. I thought my money was FDIC insured. Why do banks get bailed out but customers don't?

There's a lot of this, you know, anger from consumers, and rightfully so because you have people with thousands, in some cases, tens of thousands of dollars locked up in these accounts. People have, you know, not been able to pay their rent, access their emergency funds, get married. You know, like the impact on people has been really pretty severe, so we are very supportive of the rulemaking.

MR. BROWN: Thank you very much. I do want to mention, on the FDIC reputation, we're discussing one prong here today of all of the actions that the FDIC is taking to address this issue. We absolutely jump in, and step forward, and address things as quickly as we can with respect to misrepresentations about deposit insurance or the misuse of the FDIC name and logo.

As you know, we issued a rule last

year, you may know, which is finalizing January 1, that focuses on the misrepresentations very clearly. Part of it focuses on banks, but part of it focuses on third parties, which has very clear instructions for third parties on actions that might be omissions or activity they engage in that is misleading to consumers.

We also leverage our enforcement authority and issue civil money penalties consistent with that authority, and we have a public awareness campaign, actually led by Liz here, doing our work to educate consumers so that when they're looking at apps or they're online, they understand the risks if they're not dealing with an insured institution. That's really important.

We also have developed a series of articles on this subject for consumers to understand these issues and risks much better. So, this is only one portion of the things that the FDIC is doing to ensure that confidence in insured deposits are maintained. Jonathan?

MEMBER MINTZ: Super quick, I think, question. Is there anything in this proposal or somewhere else that I'm not familiar with that would impact -- I know that one of the questions about whether the funds are insured is do you know who has what, which we've been talking about.

Another, I think, is did the money pass through yet? Did it arrive at the bank? And I'm just wondering whether there's anything in this proposal or somewhere else that creates obligations of, I guess, bank relationships with these third parties about the float period before the money gets deposited.

MR. BROWN: Well, we would certainly expect that if someone advertises FDIC insurance and someone states that funds will be deposited at a bank, that that would be done immediately. That's an expectation.

MEMBER MINTZ: Great.

MR. BROWN: Yes, ma'am?

MEMBER TESCHER: Something Leigh said

just made me want to clarify. So, I understand that FDIC insurance is in the case of a bank failing, but as a result of this proposed rule, if it were to go into effect as-is, I would imagine it would be --

There's a lot of clarity around who is owed what, so that if the third party dissolved, went bankrupt, whatever, even though it's not -- it wouldn't be an issue of oh, the bank fund, you know, the FDIC insurance fund is paying out, it's just oh, my money is still safe because it's sitting in the bank. Am I getting that right?

So, it strikes me that there's a real communication challenge here about that because rightly, you don't want people to think that it's FDIC insurance that's covering the fact that their money is safe in the account, but at the same time, if we really want to continue to promote the trust in the system, right, we should help people understand that if the person, if the company they're doing business with, the third party, you know, is behaving appropriately, their money should be safe. I don't know how you deal with that issue.

MR. BROWN: Well, I will say it is a priority of the FDIC, and we understand that it's extremely important for consumers to understand deposit insurance. Now, they're not going to be technical experts, but they should have a general understanding of the purpose and whether their funds are protected under certain circumstances, so that's something that we continue to be focused on. Anybody else? Oh, Mr. Chairman?

CHAIRMAN GRUENBERG: Yeah, if I may, just to raise another risk that hasn't been mentioned here, which is money laundering. You know, when a customer seeks to place money in a bank, the bank, under the law, has to do due diligence under the Know Your Customer rules in order to ascertain any money laundering risk.

When you have third parties soliciting the deposits from customers and you do not have accurate or adequate recordkeeping, it creates the opportunity for the third party to accept deposits from customers who might have difficulty getting a bank account directly, may have had difficulty getting a bank account directly because they would have to go through a Know Your Customer process, but some of these third parties advertise oh, you had difficulty getting an account at a bank? Give us the money. We have a custodial account and we'll take care of it for you.

So, an important additional issue it seems to me to be addressed here is to have the bank know with certainty who the beneficial owner of those accounts is and has the responsibility to do the appropriate due diligence.

And the critical thing to understand here is that if a bank utilizes a third party to receive deposits, the first responsibility is on the bank to know who the beneficial owner of those deposits is.

A bank cannot have a relationship with a third party in which it has an arrangement to accept deposits through that third party without knowing who it's doing business with. That's where our primary responsibility is as the FDIC, it's where our threshold authority is, and that's where the primary obligation is.

We have some authorities relating to the third parties themselves. The closer the relationship of the third party with the bank, the more clear our authorities, I think, are in regard to those third parties, but the risks here are really quite fundamental.

They go to the protection of these customers, it goes to adequate controls over money laundering, and to public confidence in the deposit insurance system. So, it really raises fundamental issues for the public. It raises fundamental issues for the FDIC.

And I think it was Jennifer who said, you know, she would have assumed that if the bank's going to take the deposit, they want to know whose deposit it is, and others have said well, wasn't there a rule already, and the answer was no.

So, this is really an important gap to fill. It's one we had been concerned about for a long time, these pass-through accounts and knowing who the beneficial owner of the accounts is, is really quite critical, and in some sense, this Synapse failure has illustrated the risks here that we've been concerned about for a long time, and I think creates the opportunity for us to address it.

And I think this rulemaking is really a starting point, is a threshold, because I think the expectation is these third-party relationships are not likely to diminish going forward. If anything, they may increase.

So, it's really quite critical, I think, to establish a set of standards now before these relationships expand significantly, so that there are a set of standards that the banks and hopefully the third parties can be held accountable to. It's really a pretty big ticket area, I think.

And I must say, I think our staff here

has done a remarkably thoughtful job in addressing a complicated area to try to establish some standards for, and they've really developed what I think is a nuanced proposal that focuses on the appropriate areas of risk.

And by the way, this has been a very helpful conversation to us, and if any of you have not submitted comment letters and are interested in submitting comment letters, we would welcome them.

MS. ORTIZ: I think that may be the last one.

(Laughter.)

MR. BROWN: All right, thank you, everybody.

(Applause.)

MS. ORTIZ: Marty, would you like to close us out, Mr. Chairman?

CHAIRMAN GRUENBERG: Yeah, I've got one minute?

MS. ORTIZ: Yeah.

CHAIRMAN GRUENBERG: First of all,

let me thank you all. This is really a pleasure. I hope you all have enjoyed this as much as I have. You all are a remarkably thoughtful group of people.

The quality of the conversation and the exchange, I think, is certainly beneficial to us at the FDIC on these issues that we care about a lot and that are so important, and I hope and think they're been of interest to you.

I will comment on the unbanked and underbanked survey. It has now been 15 years since we initiated this survey, so the value of sustaining that over time and being able to track performance over time really has enormous value. So, one survey is important. A series of surveys over a 15-year period add a lot of value.

And I'm struck, if I may say, that the progress, if you want to call it that, has been really meaningful, to go from 8.2 to 4.2 percent over that period is progress. It's nearly cutting it in half. We have had these disparities on the basis of race, and income, and disabilities, and single-parent families from the beginning.

What I do think is encouraging is that as we've cut the overall rate in half, we have also cut in half the unbanked rate for those who have higher levels of unbanked rates, but as Wade noted, the disparity still exists for those who have had higher unbanked rates.

The general population of white households has an unbanked rate of under two percent. If you look at the numbers for the minority groups, single-parent households, lower income, they are in the ten to 12 percent category, five to six times the rate of the white households.

So, there is still a significant challenge here. Despite the progress we've made, I think this is not -- you know, I don't think we're in a position to declare victory here. There is significant room for improvement.

And I think it was mentioned by someone earlier, within that population, those who are totally reliant on cash does strike me as a particularly vulnerable group within this unbanked population that we probably need to pay attention to and focus on.

And if you looked at the rate for those without a high school diploma, it was 20 percent, nearly 20 percent, and it would be interesting to look at the demographics of that group because I suspect it may be a pretty diverse group.

So, we've made a lot of progress here, but I still think there's a lot of work to be done, so this committee is not out of a job --

(Laughter.)

CHAIRMAN GRUENBERG: -- and neither are we. So, let me thank you all. This has been a really terrific day.

(Applause.)

(Whereupon, the above-entitled matter went off the record at 4:03 p.m.)