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June 18, 2010

By Electronic Delivery

Leneta Gregorie
Counsel, Legal Division
Federal Deposit Insurance Corporation
550 17th Street, NW.,
Washington, DC 20429

RE: National Unbanked and Underbanked Household Survey, OMB Number 3064-0167.

Dear Ms. Gregorie:

In the following submission, we respond to the FDIC's request for comment, published at 75 FR 20357, (April 13, 2010) on potential changes to the survey instrument for the National Unbanked and Underbanked Household Survey. The FDIC is conducting that survey pursuant to its mandate under section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, Pub. L. 109-173. This letter, as well as our research on the unbanked and underbanked, is available on our website, at www.pewtrusts.org/safebanking.

The Safe Banking Opportunities Project is part of the Pew Health Group's efforts to promote safe and transparent consumer products. The Project began in 2008 as a two-year initiative to develop standards for safe, affordable, fair, and empowering bank accounts, promote their voluntary adoption by banks and credit unions, and educate the public about the standards. As part of this work, we are conducting an in-depth panel survey of 2000 banked and unbanked households in the Los Angeles metropolitan area, and our comments are informed by that work. We expect to publish the first in a series of reports on our survey results in June 2010. As always, we are available to discuss our research, the following comments or any other aspect of our work at any time.

Sincerely,

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I. The FDIC's National Survey of Unbanked and Underbanked Households and the Comment Request

Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 ("Reform Act") (Pub. L. 109-173), calls for the FDIC to conduct ongoing surveys on efforts by insured depository institutions to bring unbanked and underbanked Americans into the financial mainstream. To assess banks' efforts to reach out to financially underserved households, the Reform Act instructs the FDIC to measure the "size and worth" of the unbanked market in the United States as well as to identify the "cultural, language and identification issues as well as transaction costs that appear to most prevent unbanked individuals from establishing conventional accounts." The household survey is designed to provide a factual basis for responding to the mandate of the Act. The FDIC partnered with the U.S. Census Bureau, which administered the Household Survey supplement ("FDIC Supplement") to households that participated in the January 2009 CPS.

In this request for comment, the FDIC asks for input on: (a) whether the collection of information is necessary for the proper performance of the FDIC's functions, including whether the information has practical utility; (b) the accuracy of the estimates of the burden of the information collection; (c) ways to enhance the quality, utility, and clarity of the information to be collected; and (d) ways to minimize the burden of the information collection on respondents, including through the use of automated collection techniques or other forms of information technology. Our comments are organized accordingly.

II. The Pew Health Group Los Angeles Panel Study on the Banked and Unbanked

In 2009, the Pew Health Group (PHG) began an in-depth, ongoing study of the financial behaviors of similarly situated unbanked and banked families to inform policy solutions that would bring more Americans into the financial mainstream. Because our comments in this letter derive from our experience to date with that research, we describe it briefly below.

For this study, PHG selected a set of eight low-income neighborhoods in the City of Los Angeles representing a mix of banked and unbanked residents. The City previously had selected four of these areas as targets for the "Bank On Los Angeles" campaign because research had shown that they had a high percentage of unbanked households. PHG added to the study four other neighborhoods with similar socio-economic traits that were not targets of Bank On Los Angeles, enabling us to measure, among other things, the effect of that campaign. We also factored in whether the neighborhood had previously been the subject of industry or non-profit study yielding additional data that we can use to corroborate our findings or put them in context. While all eight study neighborhoods are low income, they are geographically and ethnically diverse and represent a variety of economic segments of Los Angeles.

In these eight neighborhoods, PHG conducted a door-to-door survey of households chosen through a random sampling protocol. Respondents were targeted to represent 1,000 unbanked households and 1,000 households with at least one bank account. The methodology was designed to reach a population that is often missed by conventional telephone or online surveys and to gather a depth of data that phone or online surveys cannot. We began the first wave of the survey in July 2009 and plan to publish a short report on the results of the first wave shortly. To discern trends or changes of financial behavior over time, we are resurveying the same households with a second wave that was fielded starting in May 2010 and will be completed by July 2010, with a second report to follow later this summer.

The PHG study compares the banked and unbanked groups across several categories, including financial behavior, economic status, and perceptions of the financial service industry. We divided the banked population into two subgroups: households using only mainstream banks or credit unions ("Banked Only") and households that regularly supplement their financial transactions with alternative financial services. Members of the latter population are often referred to as "underbanked"; we prefer to call them "Cross-Overs." We also divided the unbanked population between households that transact with alternative financial services providers (AFS) like check cashers but not with banks ("AFS Only") and the sizeable population of households that operate exclusively with cash ("Cash Economy"). Unbanked individuals who previously had bank accounts were also identified for analysis ("Previously Banked"). By digging into the financial patterns of these sub-segments, we were able to develop a more nuanced and complete picture of banking behaviors in low-income neighborhoods.

III. Questions on which the FDIC Solicited Comment

(a) Whether the collection of information is necessary for the proper performance of the FDIC's functions, including whether the information has practical utility.

Under the Reform Act, the FDIC is required to assess banks' efforts to reach the unbanked and underbanked. The intent of the Reform Act, as shown in this provision and others, is that the FDIC should actively seek to bring more Americans into the financial mainstream and specifically to increase the banked population. As Congress clearly set out in Section 7 of the Reform Act, to perform this function properly, the FDIC must develop an accurate measure of the unbanked and underbanked, as well as an accurate assessment of the barriers to banking encountered by the underserved.

Thus, adjustments to the survey instrument that increase the accuracy of the estimate of the population at issue, or that more accurately and completely capture the barriers to banking and their significance, are necessary and useful to the FDIC's performance of this function. We list below under point (c) a number of adjustments we think would enhance the accuracy of the information gathered and thus help the FDIC better monitor banks' efforts at banking the unbanked, as well as assist the agency to promote polices to increase the banked population.

(b) the accuracy of the estimates of the burden of the information collection;

We note that the Household Survey is strictly constrained in time (10 minutes) and number of questions (32). Our experience confirms that attrition rates start to accelerate dramatically at the ten minute mark in telephone surveys and that attempting longer telephone surveys risks compromising the data by reducing or skewing the respondent pool. In our own research, we have achieved longer survey instruments by using door-to-door interviewing techniques and by compensating respondents for their time. Given the methodology available to the Household Survey, we agree with the limitations imposed.

(c) ways to enhance the quality, utility, and clarity of the information to be collected;

1. ***Estimate the number of wage earners in a given household.*** The survey identifies a household as banked if one person living within it has a checking or savings account. This can yield a significant undercount of the number of banked persons, especially in dense or high-cost urban areas where each household regularly has multiple earners. This results in underestimating the market for banking services in these areas and thereby providing an incorrectly unfavorable picture to banks or credit unions considering serving the sector or the neighborhood, disserving the ultimate goals of the Act. We suggest the FDIC consider asking (a)"How many household residents earn income?" and (b) "How many of those earners have either a checking or savings account?"
2. ***Document form of income.*** The PHG survey finds a high correlation of banking status with the form in which income is received. Persons paid in cash typically remain unbanked. Those paid by direct deposit are banked by definition. Those paid by check are more diverse, but trend towards banking. To assist the agency in developing policies that promote banking the unbanked, consider asking (a) "How do you typically receive payment for work (check, cash, direct deposit)?" as well as (b) "If you are paid by check or cash, do any of your funds get deposited in a bank account before being spent? " Finally, (c) "If you are paid by direct deposit, did your employer influence you to use it, or did you influence your employer to use it?"
3. ***Document savings behavior.*** The PHG study found a strong correlation between banking and savings behavior. We think the FDIC would serve the goals of the Act well by documenting that relationship at a national level, since showing that banking promotes savings behavior is a strong policy lever. Because households generally have a good idea of their short term cash flow, we use this as an indicator of savings behavior that can be measured through a survey. We suggest the FDIC consider asking: "Which of the following best characterizes your financial condition: (a) I'm making enough to pay bills

and save for the future, (b) I'm making enough to save bills but not save for the future; or (c) I'm not making enough to pay regular bills."

4. ***Document the usage of AFS.*** We use the term "Cross-Over," rather than "underbanked," to describe the group that uses both banks and AFS, because we feel it better describes the dynamic nature of this segment of the market. This population is generally sophisticated, optimizing the product suite they need. They "cross over" between banks and AFS, shopping for the products they require at the best value. PHG's research shows that the cross-over segment is an emerging and competitive market for both AFS and banks, in which services are highly commoditized. This competition illuminates the barriers to use of bank services, which the Act mandates that the FDIC investigate. Therefore, we suggest the FDIC consider exploring the extent of AFS usage among the banked by asking (a) "How many years have you regularly used AFS)?" and (b) "How frequently do you use an AFS provider (weekly, monthly, annually)?"

5. ***Document the lost opportunity of the unbanked.*** As a means to advance the goals of the Act, we suggest documenting some of the lost benefits to the banking industry and to the U.S. economy of allowing a large percentage of the population to remain unbanked. Among the most obvious is the flight of capital overseas from remittance transfers which our research shows substitute for savings among the unbanked. Also, while our research shows that most unbanked would be eligible for the earned income tax credit, most do not file tax returns. Banking this group would increase the likelihood they would file and receive the credit, boosting their incomes and spending power. Consider asking about (a) the frequency and size of remittance transfers; and (b) whether the respondents have recently filed income taxes, or requested the earned income tax credit.

6. ***Measure the subsets of the unbanked: never banked, abandoned banking, and expelled from banking.*** The FDIC study divides the unbanked into never banked and previously banked. We found it useful in our research to further divide the previously banked between those who left banking voluntarily and those expelled from banking. These three groups of unbanked each present different issues and require a different strategy to reach and bring into banking. For example, the vast majority of the unbanked in Los Angeles have never been banked before; they require education and access to safe and affordable financial products. A second substantial portion of consumers were previously banked, but decided to leave their bank, usually due to dissatisfaction with excessive fees, or customer service. This group needs to be persuaded that banks, or at least some of them, have changed their ways and that banking offers a better value than AFS. A third, smaller segment was expelled from the banking system and is currently not allowed to return; they require credit counseling and rehabilitation. To provide greater insight into the best policy solutions to reach these subgroups of unbanked persons, we suggest that the FDIC ask previously banked persons whether they left their bank voluntarily or whether the bank closed their account.

7. ***Measure the extent to which overdraft fees are a barrier to stable banking relationships.*** Our research shows that many low and moderate income persons view overdraft fees as a barrier to stable bank relationships. Being charged a fee they do not understand is a major reason they leave a bank, and fear of overdraft and other hidden fees is a major reason for remaining unbanked. We think the FDIC should investigate the extent to which overdraft fees are a barrier to banking by asking (a) "How much in overdraft fees did you pay in the last year?" as well as (b) "Would you like to be warned of a potential overdraft before it occurs?"

(d) ways to minimize the burden of the information collection on respondents, including through the use of automated collection techniques or other forms of information technology.

We are concerned that a move toward greater automation may compound what we perceive as an existing danger with the study: that it does not reach many of the unbanked and underbanked. We have two specific suggestions in this regard.

1. ***Document technology and language divides.*** Many policy interventions for the unbanked are conceived with English-speaking, technology-savvy consumers in mind. Yet, as exemplified by the eight PHG study areas, neighborhoods with high concentrations of unbanked and underbanked households often contain large numbers of persons for whom English is a second language. Similarly, a very high percentage of the PHG survey respondents did not have regular access to a computer nor did they own a cell phone. To be mindful of consumer capacities, it is worthwhile to monitor language and technology divides. We think the FDIC should consider asking respondents about (a) expressed comfort reading and writing in English, (b) access to, and comfort using computers, and (c) cellphone capabilities to access email, internet, and other data online.
2. ***Adjust methodology and/or results to account for those hard to count.*** The Household Survey is admittedly a conservative estimate of the unbanked population. We are concerned that it may substantially undercount the unbanked, because this population shares many of the characteristics of those whom the U.S. Census generally undercounts. As a group, the unbanked have a high rate of all the 12 demographic characteristics associated with high non-response rates in the Census, including homelessness and undocumented status. Los Angeles, the location of the PHG study, is a case in point. Los Angeles County represents 28% of the state's 2000 U.S. Census count, and 34% of its undercount. Estimates of homeless persons in Los Angeles County exceed 80,000 on any given night. Estimates of undocumented persons in the County reach three quarters of a million. We suggest that the FDIC consider either adapting its methodology or adjusting its results to reflect the difficulty of counting the unbanked and underbanked using the current methodology of the Household Survey.