



Banking the Unbanked

BRIAN SULLIVAN: Welcome back to the FDIC Podcast where we talk about our banks and your money. I'm Brian Sullivan with the Federal Deposit Insurance Corporation.

Today, we're going to talk about being banked...or for those seven million households without a bank account...getting banked.

In a previous episode, we looked at new research from the FDIC about how America banks...and perhaps not surprisingly, the FDIC noticed a big increase in the use of mobile banking.

So when it comes to how America banks... more people use their phone than bank tellers, ATMs or even their home computers.

Today, we're going to talk about the different ways people access financial products and services. And we'll talk about those who aren't banked at all...and the full court press under way to get them banked.

Leonard Chanin returns to the FDIC Podcast...he's the Deputy to the FDIC Chairman for Consumer Protection and Innovation. And **Jonathan Mintz** is the President and Chief Executive Officer of the *Cities for Financial Empowerment Fund*...that's an organization that works with local governments and a coalition of other community-minded organizations around the country to bring unbanked families into our financial system. Hey Leonard, welcome back and Jonathan, welcome for the first time!

LEONARD CHANIN: Great. Thanks. Thank you so much, Brian. It's great to be back with you.

JONATHAN MINTZ: Thanks, Brian. I'm really happy to be here.

BRIAN SULLIVAN: Leonard, let's start with you. Why is it so important that people on the outside of our banking system...get banked?

LEONARD CHANIN: Yeah, there are a couple of reasons why people should really consider getting a bank account, those persons who don't have bank accounts. One is financial. So the cost of getting a bank account, and Jonathan will talk about this a little bit more in a minute, the cost of getting a bank account really can be better. That is, more affordable than getting services from non-banks, that is check cashing services and other services. So, one,

financially I think consumers can really be better off getting a bank account than using alternative services. The other, really is to get integrated into the mainstream financial system and we'll talk about this a little bit more later as well. I think it's important and gives consumers really opportunities for the future when they get integrated into the mainstream financial system by having a bank account.

JONATHAN MINTZ: Yeah. I think Leonard is exactly right. I think that you know, being banked, being part of the mainstream banking system, you know, it's more than an adjective. We have found again and again that being connected into the mainstream of the finance system, rather than conducting everything ad hoc through check cashers, et cetera, is a much more stabilizing influence.

We have counseling programs across the country that have found that those who are working even repeatedly with financial counselors on their goals around savings and building credit are at a significant disadvantage when they aren't banked. And that, when they become banked, they are something like eight times more likely to be able to achieve those goals. So, it's not just more efficient. It's building a stronger foundation to meet people's goals.

BRIAN SULLIVAN: Jonathan, tell us about your organization and the work you and your partners do to bring more families, specifically lower income UNBANKED families, under the financial tent?

JONATHAN MINTZ: So, the CFE Fund runs the National Bank On Program and at its core, even though it's a national umbrella, at its core, Bank On is really about coalitions. It has always, from the beginning, brought together the banking industry, consumer advocates, municipal leaders, community organizations, to find, I often say the middle of the Venn diagram. Like where do our interests align around stabilizing people by bringing them into the system and bringing them into the system with accounts that are going to work.

And so, the Bank On Program does that with a sort of a three- or four-part equation. One, is we have a national certification. We actually are quite specific about what an appropriate product is, what it does, what it can and can't do, what its costs are, and we certify products as to whether or not they meet that standard.

The second is that we're supporting close to 90 coalitions around the country...city, county, state coalitions that bring together these multiple stakeholders and try to find opportunities to connect people into those certified products.

The third piece of the equation is programming, which is if you're really going to help people get into these accounts, then, it's one thing to have the accounts, it's another thing to talk about the accounts. But we believe that where our coalitions are achieving the most success is when they are finding programmatic ways to integrate banking into their work.

BRIAN SULLIVAN: One of the chief reasons why unbanked families report they aren't banked is the perception at least is that they can't afford to...that the expense of opening and

maintaining even a basic checking account is just too high. Minimum balance requirements and bank fees. Jonathan, is this a perception or is there some reality to this?

JONATHAN MINTZ: Well look, we learned, we have all learned a lot from the FDIC's research about why people are unbanked over the years and we have seen that play out on the ground in our programs. Which is people had very reasonable concerns. Not so much about what an account cost in the monthly fee, but what it ended up costing them in reality with other fees that they really weren't asking for and didn't expect. Overdraft is the biggest example, inactivity fees, dormancy fees, minimum threshold fees. And so, we took all of that input from the FDIC's work and from others and worked together with the different sectors that I talked about before to craft an account that was exactly targeted at those concerns.

These accounts cannot be more than \$5 a month. These accounts cannot create overdraft fees, insufficient fund fees, dormancy fees. And I think by addressing those *exact* reasons that people were reasonably concerned I think it's part of why these accounts have been so successful.

BRIAN SULLIVAN: Leonard, there are so many products and services out there offered by non-bank financial service providers... you have: transaction services that allow people to buy and sell things online; you have person-to-person payment systems that allow people use their phones to send and receive money; and then you have that universe of pre-paid cards out there that look and behave like the bank-issued debit cards but may not be.

You've held senior positions at the Federal Reserve, the Consumer Financial Protection Bureau...and now here at the FDIC. From where you sit, what are the chief benefits that come from being banked BY the banking system?

LEONARD CHANIN: Yeah. So there, there are lots of benefits and it's important to recognize when you're talking about banking accounts or bank accounts that there are other services out there. But really a bank account offers you, if you will, kind of one-stop shopping. And so, for example, you get a bank account and as Jonathan mentioned particularly, offered by many banks, there are low minimum balance requirements, there are no overdrafts and other features, so you can manage the fees for those accounts very easily. Typically for bank accounts, you have the ability to pay either friends and family without a fee. You have the ability to send payments to merchants or utility companies and the like quickly, without a fee, you have the ability to use the banks own ATM's, automated teller machines, without fees. There's lots and lots of advantages to doing that.

And there are other advantages. One, is of course, bank accounts are insured. That is the FDIC ensures consumer accounts up to \$250,000 per account. So if the bank should fail, something unlikely, those monies are insured by the FDIC. The other thing is that your money is safe. That is, should there be fraud or something involved with the account. You have rights under federal law to dispute, you know, those transactions and in essence, get your money back. And thirdly, we, the FDIC, examine and supervise banks that we have jurisdiction over on a regular basis.

BRIAN SULLIVAN: Jonathan, you're in the relationship business. I gather you'd agree that there's a benefit to having a relationship that you can build upon as time goes on ... starting from the most basic, certified checking account to something much larger later in life?

JONATHAN MINTZ: Yes, I think that's absolutely right. I mean, I think, you know people in all of our work and all of our focus groups and research, you know, what people really want is to have control over their money. And as Leonard said, in the first instance, it's about controlling literally what they're paying for those services and being able to conduct the transactions that the rest of us conduct without thinking about and without paying extra fees to perform.

And so I think that when people feel like they are no longer conducting their financial services sort of on-the-fly, like on a, like an a la carte sort of approach, but in fact, part of the system, it means that when they're ready to get a car loan, it means that when they're ready to get a small business loan or a mortgage or whatever their financial goals are, to set up a savings account, to open up a college account for their kids...like all of those goals that we all have for our families futures begin with getting into the system and having a successful experience. And that's very much why this effort by the FDIC...the *Get Banked Campaign*, the *Bank On program* with the actual, you know, accounts for people really is about not just bringing people in for a transactional account, but bringing them into the system so that they can grow their futures.

BRIAN SULLIVAN: Right. Let me ask a provocative question...first you Leonard...and Jonathan, I'd welcome your take on this too. This is heresy for many bankers who may be listening in but with all the changes taking place in the banking space...with the explosion of technology and with all the ways we changed our banking habits during our pandemic...do people really *need* a bank these days?

LEONARD CHANIN: Yeah. So, I would say that having a bank can offer a convenience that, you know, as Jonathan mentioned, so you don't have to do one-off transactions. So for example, people get paid, either by check or through some means. If they have a bank account, they can get direct deposit. That means their money is going to almost always get there quicker. They can access it nearly immediately if they have direct deposit as opposed to getting a check. If you get a check, you'll have to go physically, or in some fashion to a check cashing organization, you'll have to pay a fee. You don't pay a fee for direct deposit. And then as we've mentioned, you can engage in transactions with that bank, whether it's online through a mobile app, or even in person and engage in those transactions, such as paying your bills without being assessed a fee. So you don't have to go to the post office or another location to buy a money order.

JONATHAN MINTZ: I would also add, Brian, I mean, America learned...we had a front row seat to a very painful lesson about what it meant to be outside of the banking system. You remember back last spring with the first stimulus payment that was going on by the IRS. If you had a bank account, you were getting that money quickly, safely for zero money, zero fees, directly deposited into your account. They were telling people that if you had to get a

check because you didn't have an account, you might have had to wait three, four, even five months at one point they were saying before you were going to get those stimulus dollars. Thirty-five million people got checks and had to wait months to get them through, you know, I'm not faulting the IRS, it's just that they didn't have an account. And so that was a really painful underscoring of how much more complicated it is and how disadvantageous it is. And, you know, and I would also add, I it's sort of apocryphal but true...it was even more dangerous to your health because all of the transactions that Leonard just listed, you had to go do in person. And that was pretty frightening.

BRIAN SULLIVAN: Jonathan, with more than seven million unbanked households out there, do you think bankers may believe that serving this lower income segment of the marketplace just doesn't make economic sense?

JONATHAN MINTZ: Yeah, I think that there are a couple of myths here that I wouldn't mind breaking. I think that one is that for a long time the banking industry didn't necessarily invest in this population. They didn't see this population as necessarily stable or the most appealing of clients. And at least that was the perception. And I think what started to happen was that they saw how much money these people were spending for their financial transactions. And how many of them there were. So, you know, speaking sort of bluntly, there was a big market out there that the banking industry was missing. And I think that the Bank On Account provided a way for them to rethink about those relationships and rethink about those customers in a win-win way.

At the same time, I think that customers perceived that until they had achieved a certain level of stability or wealth in their lives, that banking wasn't yet for them. And that perception, that it's not that people are thinking of banking as a bad idea. What we tend to hear again and again, is that people think, well, I'm not quite ready for that. And the Bank On Account and these new relationships with financial institutions that are welcoming people with the Bank On Account...we're talking about millions of these accounts being opened...are seeing that in fact, these accounts are designed for them to have a great experience, that they're affordable, that there will be no surprise fees. And that, as Leonard said, not only can they afford it, but it is a *much* more efficient, much more cost-effective way of, of leading their lives.

LEONARD CHANIN: Jonathan, let me ask you a question. We had discussed before that, so banks are competing to get new accounts, and I think you had indicated that there's some data about, for those customers who get a Bank On Account for that bank, that they are a new customers to that bank. Was there any data on that or information on that?

JONATHAN MINTZ: Yeah, I'm glad you asked. I think in the early days of the Bank On certification, there was some concern of financial institutions that by offering a low fee, no overdraft account, that people were going to jump out of their traditional accounts and opt for this one. I won't comment on what that says, but in fact that really has *not* been the case. We have data that's been voluntarily reported by a large number of the banks that have accounts that we've certified. They've reported this data into a central national data hub at

the St. Louis Federal Reserve. And what they have found is that over three quarters of the people that are opening up Bank On Certified Accounts are new to the financial institutions. So these accounts really are drawing in new customers. And from our point of view, presumably is, is a good proxy, but not a perfect proxy, people who are outside of the system and are now coming in.

BRIAN SULLIVAN: So Jonathan, do you believe with this growth in the number of Bank On accounts that bankers are beginning to realize that this is indeed a growth market?

JONATHAN MINTZ: I think that that's absolutely true. I think that this is good for business, and I think it's good for communities. And I think that you know, recently when Rob Nichols, the head of the American Bankers Association, highlighted to his thousands of bank members, that this was the number one priority, that they should be offering Bank On Certified Accounts, I don't think he was asking them to take a hit. I think he was asking them to do something smart.

BRIAN SULLIVAN: Let me give you both a final word...let's begin with you Jonathan. What would be your message to bankers and their potential customers about getting banked?

JONATHAN MINTZ: What I would say is that these Bank On accounts work. They work for financial institutions. We are seeing not only more and more banks and credit unions offering accounts that can get certified, but doubling down. We've got some institutions that have *multiple* accounts that are certified. We had 800,000 new accounts opened in just one year alone. This is a great market! And so, the banking access world is not just shaking its fist from a consumer advocate perspective and saying, 'stop doing this and this is what we want!' I think we really have identified the center of a Venn diagram. We have identified accounts that speak to why people are outside of the system and that speak to the banks need to have an account that brings in new customers and works for them as well.

LEONARD CHANIN: The competition to get new customers out there is quite fierce. You see banks advertising bonuses to customers to open accounts and those sorts of things. What I would say is we know there are about seven million households that don't have bank accounts. So those are opportunities for banks, community banks and other banks, to try and get those customers to open accounts. Bank On, I think, is one of the accounts that's going to really appeal to many of those customers. And so, I think you can bring those customers into the banking system and increase the number of customers that you, the institutions have, and also kind of build that relationship to offer other products to those people. So I think, you know, particularly in light of the competition, those are some those are customers. I think that you don't have to, if you will, try and get from other banks, you can try and get them into your bank. And as Jonathan indicated, about 70 percent, 65-to-70 percent, of these customers are new to the bank, which is a pretty extraordinary number.

JONATHAN MINTZ: I would also just, grab, you know, America's listening to this podcast, Brian, so I, have to grab the real estate and just say that banks, that you know, that banks or credit unions, that are looking to get an account certified or to talk to us about what that

would take you know, to please visit us at www.joinbankon.org. Certification is easy, it's free and we are happy to consult with you on how to make it work.

BRIAN SULLIVAN: Jonathan Mintz, the President and Chief Executive Officer of the Cities for Financial Empowerment Fund...and Leonard Chanin of the FDIC...thank you both joining us to talk about how to bring more unbanked families into the financial system. Thank you.

LEONARD CHANIN: Thank you.

JONATHAN MINTZ: Thanks, Brian.