

FDIC 2009 Interagency
Community Affairs Conference
Economic Inclusion – Consumer
Product Updates

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The background of the slide features several decorative blue concentric circles of varying sizes, resembling ripples in water, positioned in the lower right and bottom center areas.

Federal Policies to Promote Economic Inclusion

- **Facilitating Access**
- **Overcoming Impediments to Access**
- **Balancing Consumer Protections with Access with Safety and Soundness**



Balancing Access with Consumer Protection with Safety and Soundness

- **Three legs to good Financial Services Policy**
 - **Consumer Protection**
 - **Safety and Soundness**
 - **Access**

- **Enormous interplay (some complement and some inherent tension)**
 - **BSA (Access and Safety and Soundness)**
 - **New products: Prepays/FDIC Pass through-insurance (Access Consumer Protection and Safety and Soundness)**
 - **Prohibition of practices: Credit Card Accountability Act (Access and Consumer Protection)**

Balancing Access with Consumer Protection with Safety and Soundness

➤ CFPA

- Careful application of consumer protections to new and emerging products
- Promoting product standards while allowing market segmentation, competition, and innovation
- Providing consistency and clarity by *all* regulators



Federal Policies to Promote Economic Inclusion The “Un and Underbanked”

- **106 individuals are unbanked or underbanked**
 - They choose not to use or do not have traditional bank accounts and instead use nonbank financial services to meet their everyday financial needs
- **This is not a homogeneous group**
 - Varied motivations for being outside of the traditional financial arena
- **Unbanked and underbanked families often face high costs to conduct basic financial transactions, high barriers to saving, and more expensive forms of credit**

Federal Policies to Promote Financial Access

- **Significant legislative changes and proposals to improve consumer protections**
 - Credit card bill
 - FRB Rules on overdraft
 - Proposed Consumer Financial Protection Agency
 - Talent Amendment (36% cap on payday loans)
 - Taxpayer Protection and Assistance Act, proposed

- **Limited federal policies to facilitate access to reasonably priced financial products**
 - FDIC Small Dollar Loan Pilot
 - Treasury's Community Financial Access Pilot
 - First Accounts Pilot
 - Proposed Consumer Financial Protection Agency

Federal Policies to Promote Access

Tax Time: SAFE-T Account

- **Tax Time is an annual occurrence when millions of low and middle income tax filers receive \$80 billion in federal income tax refunds**
- **Largest lump sum payment: Average \$2,700**
- **Research shows tax time spurs attention to personal finances**

Facilitating Access: SAFE-T Account

- **Proposal to provide a transaction and savings Account – a SAFE-T Account – on the federal income tax form**
- **Select financial institutions would provide the account on behalf of Treasury as fiscal agents of the Department**
- **Tax filers, who do not direct their refund into another account or opt-out to receive a paper check, would be automatically defaulted into the Account**
- **3-5% of refund defaulted into savings component of the Account**
- **The Account would be eligible for deposits throughout the year**
- **Provide security, convenience, and the capability to manage and track spending**

Treasury

IRS

Verifies taxfiler's data
Verifies tax refund amount
Relays taxfiler data to FI (CIP)
Electronically transmits refund amount to financial firm, specifying how much to transaction and how much to savings

Tax Return Forms

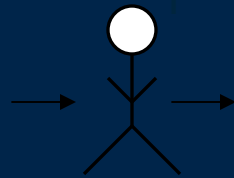
Option for direct deposit or ATA (or opt out)

Specifies 5% default to savings

Specifies means for accessing savings

Timing: when SAFE-T card will arrive and when funds will be available

Identifies the financial firm that will hold the account



TAX REFUND
to be deposited into the ATA

Financial Firm

Generates ATA Card
Mails SAFE-T Card to individual taxfiler

Includes:

- Account number
- specifications regarding card activation
- details regarding card's functions and fees
- customer service information/number

ATA-1

POS

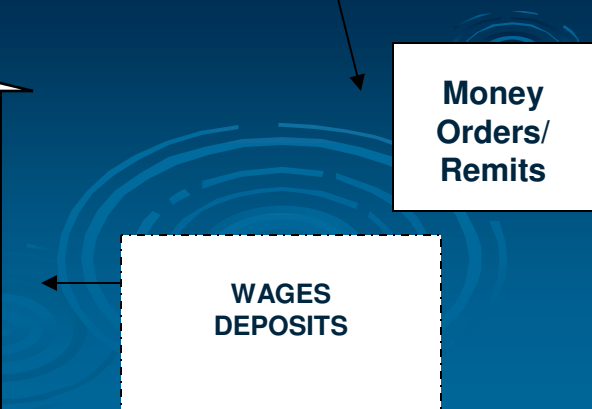
ATM

Online Purchase

Online Bill Pay

Money Orders/
Remits

WAGES DEPOSITS



Federal Policies to Promote Access

Tax Time: SAFE-T Account

- **Volume**
 - 39 million tax filers with AGIs of \$60,000 or less who would receive a no to low cost transaction and savings Account
- **Dollars**
 - \$Almost \$70 billion in refunds available for deposits, each year
- **Cost Savings**
 - \$31 million saved by the U.S. Treasury Department, each year

Federal Policy to Overcome Access Impediments: 'Hard to Verify' Consumers

- 50 million unbanked persons living in the US.
- Transient persons and undocumented immigrants represent a significant portion of the unbanked population.
- 8.3 million undocumented immigrants in the U.S. labor force, as of March 2008.
- Three-quarters (76%) of the nation's undocumented immigrant population are Hispanics
- 70% of Latin American immigrants lack a bank account
- Data show that customers who are denied a bank account once often do not return to a bank again.

Federal Policy to Overcome Access Impediments: 'Hard to Verify' Consumers

- **Under U.S.A PATRIOT and Bank Secrecy Acts**
 - Detect and prevent money laundering
 - Develop a Customer Identification Program (CIP)
- **Regulations only require that a bank obtains at a minimum the following information:**
 - Name
 - Address
 - Date of Birth
 - Social security or taxpayer identification number
- **Responsibility and liability for “knowing the customer” stay with the bank**
- **Banks go to different lengths to verify ‘hard to know’ consumers –**
 - Less than 1/3 of banks accept the Matricula Consular cards

Federal Policy to Overcome Access Impediments: 'Hard to Verify' Consumers

- Banks want clarity and guidance, particularly when trying to serve 'harder to verify' consumers
- Practical and Policy Fixes
 - Model Customer Identification Protocols and Policies for Industry
 - Regulatory Clarity and Consistency
 - Restricted Account: *Passageway Account*

Federal Policy to Overcome Access Impediments: Passageway Account

- **An account with greater flexibility on account opening and tighter constraints on functionality**
 - The frontend protects against fraud
 - The backend protects against money laundering
- **Passageway Account provided when a customer does not pass the bank's traditional Customer Identification Program**
 - Address cannot be verified
 - Customer not found in non-documentary identification systems (Credit bureaus, Lexis Nexis, etc.)
 - Customer lacks a drivers license or SSN
- **No reason to suspect fraud**

Federal Policy to Overcome Access Impediments: Passageway Account

- **BSA Minimum: to obtain...**
 - **Name (*verbal*)**
 - **Address (*verbal*)**
 - **Date of Birth (*verbal*)**

 - **And instead of being required to produce a Social security or ITIN**
 - **Non U.S. resident must be identified using a passport, alien identification card, or other official document evidencing nationality or residence**

 - **Two from the IRS's list of acceptable ID for ITIN application... (one must be a photo doc)**
- Passport (the only stand-alone document)
 - U.S. Citizenship and Immigration Services photo identification
 - U.S. state identification card
 - Visa issued by State Dpt.
 - U.S. driver's license
 - U.S. military identification card
 - Foreign driver's license
 - Foreign military identification card
 - Foreign voter's registration card
 - Civil birth certificate
 - National identification card
 - Medical Records (youth)
 - School Records (youth)
 - Original SSN card
 - Original watermarked ITIN paper

Federal Policy to Overcome Access Impediments: Passageway Account

- **The account may never hold \$5,000 or more at any given time.**
- **Constrains on the ‘velocity’ of money going into and out of the account.**
 - **No more than \$1,000 dollars in aggregate may be transferred to any unknown account per month.**
 - **Customers are not permitted to take out more than \$200 of cash per day from an ATM, teller, or at a POS terminal.**
- **The account may not be accessed outside of the United States**
 - **No amount may be sent to an account residing outside of the United States.**
- **Each customer is limited to one Passageway Account with any US institution.**

Federal Policy to Overcome Access Impediments: Passageway Account

- Provides clarity and consistency to the banking sector on how to serve the “hard to verify” population.
- Bringing “unverifiable” customers into the financial arena for the first time, safely.
- The consumer would be graduated to a traditional bank account after holding the Passageway Account for a set period.

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newamerica.net/programs/asset_building