June 15, 2016

Keith Ernst
Associate Director
Consumer Research & Examination Analytics
Division of Depositor and Consumer Protection
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 2009

Re: Request for Comments on Mobile Financial Services Strategies and Participation in Economic Inclusion Demonstrations, FIL-32-2016

Dear Mr. Ernst:

The National Community Reinvestment Coalition (NCRC) and the Woodstock Institute appreciate the opportunity to submit comments to the Federal Deposit Insurance Corporation (FDIC) about Mobile Financial Services (MFS). MFS has the potential to promote the inclusion of the underbanked and unbanked in mainstream banking. However, MFS needs to be strategically used in a way to ensure it benefits low- and moderate-income (LMI) communities. Also, branches remain the primary way LMI customers access bank products and services. Branches are critical for access to small business loans and for increasing access to branches with people that are non-native English speakers. A major emphasis on Community Reinvestment Act (CRA) exams must be on physical branches, as they promote economic stability and wealth building in LMI communities.

NCRC is an association of more than 600 community-based organization that promote access to basic banking services, including credit and savings, to create and sustain affordable housing, job development, and vibrant communities for America's working families. Our members include community reinvestment organizations, community development corporations, local and state government agencies, faith-based institutions, community organizing and civil rights groups, minority and women-owned business associations, and social service providers from across the nation.

Woodstock Institute is a leading research and policy nonprofit working with and on behalf of lower-wealth people and communities of color on equitable lending and investments, wealth creation and preservation, and access to safe and affordable financial products, services, and systems.

Both organizations are concerned with ensuring that banking developments are incorporated within the framework and mission of the CRA so as to promote growth and wealth building in LMI communities. A strong CRA is key to driving better basic banking services and in enhancing community development in LMI communities.

The Unbanked and Underbanked

As of 2013, 7.7 percent of households remained unbanked and 20 percent were underbanked.[1] The FDIC found in its 2011 National Survey that approximately 17 million U.S. adults live in households without a checking or savings account, and an additional 51 million live in households that have a bank account but rely on nonbank providers for some financial services.[2] Many of the underbanked have turned to alternative financial services such as money orders, check cashing services, and payday loans.[3]

The unbanked and underbanked often pay exorbitant fees for these alternative options. As in the case with abusive payday lending, a cycle of debt can damage borrower credit. Many chose this option due to the lack of access to more responsible options or problems with creditworthiness. Further, many chose this option because they need more immediate access to their funds, which may not be available through banks due to a lack of branches in their communities.

Many of the unbanked and underbanked are disproportionately under- or un-employed. They benefit significantly when branches open in their communities and bring job opportunities either in the branch or via small business lending.

Access, Sustainability, and Growth: Strengths and Weaknesses

The FDIC laid out three specific areas that MFS could aid the unbanked and underbanked: access, sustainability, and growth. MFS has the potential to properly assist the unbanked and underbanked in these ways, but there are concerns that must be addressed.

I. Access

The FDIC's 2013 National Survey on Unbanked and Underbanked found that 68 percent of unbanked households have access to a mobile phone and only 49 percent of that percentage have access to smartphones. The FDIC noted in its white paper that access to smartphones is increasing, however, there is still a large section of the population that does not have access. Further, of those who do have access to

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[1] FDIC, National Survey of Unbanked and Underbanked (2014), available at https://www.fdic.giv/news/news/press/2014/pr14091.html
[2] FDIC, Assessing The Economic Inclusion Potential of Mobile Financial Services (2014), available at: https://www.fdic.gov/consumers/community/mobile/Mobile-Financial-Services.pdf
[3] FDIC, National Survey of Unbanked and Underbanked (2014),

mobile phones and/or smartphones, many only have temporary access due to sharing one mobile device among multiple people. From that perspective, the pool of unbanked and underbanked consumers that MFS can reach shrinks significantly.

The FDIC survey found that lower income households were more likely to primarily use bank tellers over mobile and online banking. This must be given appropriate weight in decisions for promoting MFS. A move away from physical branches toward more MFS could alienate large segments of the underbanked, and may not provide enough incentive to pull in a large portion of the unbanked. In fact, the FDIC survey found that most respondents were not interested in opening an account via MFS and preferred the "security" and "personalized service" of a face-to-face interaction at a bank branch for opening an account.[4]

Another overlooked issue is that many of those excluded from our mainstream financial system are immigrants and non-native English speakers who need access to language- and culturally-competent staff at local branches. Most current MFS applications are only in English. In addition, people with vision impairments, as well as others with disabilities that affect their hands, may not be able to use MFS applications and need assistance of branch staff.

II. Sustainability

The FDIC defined sustainability as both the continuity and comprehensiveness of a consumer's relationship with a bank, as well as the bank's ability to feasibly serve the underserved through the mobile delivery channel. This element appears to provide the strongest potential for the unbanked and underbanked. Once the challenge of getting consumers into a physical branch is met, having MFS can help maintain customer service by offering convenience and allowing consumers to track their accounts more easily.

In other words, a bank branch is often the means by which a customer starts a relationship with a bank and opens an account. MFS helps a customer maintain the banking relationship by enabling him or her to monitor their account. MFS complements bank branches, but cannot replace them, particularly for LMI communities. The FDIC paper stressed two ways MFS can assist with account management: through monitoring one's account balance and transaction history and by receiving alerts. Both of these can help those with lower balances manage their funds more effectively.

[4] FDIC, National Survey of Unbanked and Underbanked, p. 19 (2014), available at https://www.fdic.giv/news/news/press/2014/pr14091.html

III. Growth

Effective sustainability functions can also help consumers in their financial growth. Notable suggestions are through the tracking and monitoring of funds and setting goals through the use of personal financial management tools. Goal setting can help people improve budgeting, increase their savings, and prevent bounced checks. MFS can help them manage their accounts and set goals.

A shortcoming in the FDIC papers, and the request for comments, is that the agency seems to be solely focused on access to mainstream banking services and deposit accounts via MFS and branches. Yet, this sole focus underestimates the importance of branches for economic growth in communities. There is a large body of research demonstrating that small business lending is relationship-based lending that depends on the knowledge of branch staff on the creditworthiness of small business owners. Two thirds of net jobs in the United States are through small businesses, meaning branch-based lending has a large role to play in the economic development of communities. Recent research by Berkley citied by the New York Federal Reserve Bank points to a strong correlation between branch closures and deep declines in small business lending, which can last up to eight years. Branches are also very important in extending home loans to LMI borrowers and help LMI customers with their financial and retirement planning. We are very concerned that branch closures in favor of MFS will have devastating economic consequences for LMI communities.

Need for Strategic CRA Consideration

MFS has changed the way consumers interact with banks and with their finances and has the potential to help pull in a portion of those that are either unbanked or underbanked. Yet, the evidence to date suggests that the CRA service test should not place too much emphasis on MFS and must not diminish the primary importance of bank branches. While MFS can help keep LMI consumers connected to banking, bank branches remain the principal means of initially attracting consumers to banking.

Although MFS can be a useful tool, as the FDIC noted, it alone is not enough to achieve economic inclusion, but rather is one of the tools that can be used to promote inclusion. Despite the increased use of MFS among the underbanked and unbanked, LMI communities, rural Americans, minorities, and the elderly remain behind on the general shift toward electronic platforms. Approximately 20 percent of American adults—60 million people—do not use the Internet at home, work, or school, or by a mobile device.[5] Due to the lack of Internet access for so many, physical branches need to remain a priority on the CRA service test.

MFS is on the rise, growing exponentially in recent years.[6] However, accessibility, reliability, and adoption rates for MFS in LMI communities, particularly those of color, are still low and do not warrant removing physical branches and changing emphasis to MFS. One third of households earning less than $20,000.00 per year do not use the Internet, and fewer than half of those earning under $50,000.00 per year have a smartphone.[7] Another study found that only 59 percent of households in communities of color had Internet access via a mobile phone and only 11 percent of them said they felt comfortable using their mobile device for financial transactions.[8]

It is unclear how broadly utilized current MFS tools really are. An American Banker study found that only about one-third of bank customers have downloaded and are using banking apps.[9] A 2014 study by the Federal Reserve revealed that just 33 percent of mobile phone users had used mobile banking in the past 12 months.[10] Although access is growing, LMI communities still have less access to mobile devices and MFS. The primary focus on the CRA service test must remain on physical branches. Allowing banks to redirect resources by closing branches down to supply further MFS could ultimately block LMI communities out, rather than build inclusiveness.

The CRA service test must be updated to consider the cost of MFS services, as well as accessibility and utilization of those products. The test must include factors to determine whether the MFS being offered align with affordability and sustainability goals. The Interagency Question and Answer (Q&A) document discusses the provision of low-cost international remittances, checking, savings, and check cashing services as examples of sustainable community development services. Fees

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[5] Most of U.S. is Wired, but Millions Aren't Plugged In, New York Times (March 13, 2013); Exploring the Digital Nation, U.S. Dept. of Commerce (2013); Consumer and Mobile Financial Services, Federal Reserve Board (March, 2015).

[6] From a recent study approximately 84 percent of banks polled offer some form of mobile banking and about 93 percent expected to roll out a mobile option by end of 2015Colin Wilhelm, "Mobile Banking Deployment Widespread. Next Challenge: Adoption." Bank Technology News (October 29, 2014).

[7] Aaron Smith, Pew Research Center, "Technology Adoption by Lower-Income Populations" available at: http://www.pewinternet.org/2013/10/08/technology -adoption-by-lower-income populations/

[8] NCLR, National Urban League, National CAPACD, "Banking in Color: New Findings on Financial Access for Low and Moderate-Income Communities," available at: http://www.nclr.org/images/uploads/publications/bankingincolor_web.pdf

[9] Wilhelm, Bank Technology News

[10] Federal Reserve Board of Governors, "Consumers and Mobile Financial Services," (March 2014), available at: http://www.federalreserve.gov/econresdata.consumers-and-mobile-financial-services-report-201403.pdf

and affordability of MFS also should be assessed on the service test to ensure that fees are affordable and are not predatory or exorbitant.[11]

Examining fee structures is important to make sure MFS services are affordable for LMI customers. Banks may have legacy technology systems that are outdated and could be costly to modify, and these costs could ultimately be placed on the consumers. [12] As stated by the Comptroller of the Currency, Thomas J. Curry, the benefits of MFS will be undermined if they, "Involve excessive cost or disadvantage unbanked or underbanked consumers."[13]

The FDIC should also conduct a comprehensive study to more fully gauge the effectiveness of MFS. The FDIC should systematically collect data on the deposit accounts of the consumers by income levels as well as other demographic data such as race, age, citizenship status, primary language, and vision and other impairments that affect a person's ability to use MFS. This would allow the Agency to assess whether traditional banks with extensive branch networks or more MFS-oriented banks are more successful in serving LMI and other traditionally underserved customers. The study should also track how many accounts were opened and closed during the course of a year by consumer income level. This will enable the agency to make assessments about the sustainability of the accounts and other important factors like the fee levels for basic deposit accounts.

Until these types of studies are conducted, the federal agencies should not make significant changes to the CRA service test or interagency Q&A because it is still unclear whether MFS is an efficient and cost effective way to promote inclusiveness, or whether it would be a problematic expensive system that further cuts out LMI communities from mainstream banking. Further, MFS should not receive favorable consideration on the service test if no concrete results can be demonstrated as a result of the MFS. Did the MFS facilitate the opening of accounts, the maintenance of accounts, and actually help LMI people increase their savings or better manage their accounts as revealed by quantitative performance measures. In the absence of specific results, vague generalities about MFS usage should not earn points on CRA exams.

[11] Interagency Question and Answer on CRA, Federal Register /Vol. 75, No. 47 /Thursday, March 11, 2010 via http://www.ffiec.gov/cra/pdf/2010-4903.pdf, see Q&A § _.12(i)-3, p. 11651.
[12] Thomas J. Curry, Comptroller of Currency; Remarks Before the National Community Reinvestment Coalition (March 18, 2016); available at: http://www.occ.treas.gov/news-issuances/speeches/2016/pub-speech-2016-29.pdf
[13] *Id*.

Conclusion

We commend the FDIC for its actions to promote the economic inclusion of the unbanked and underbanked in mainstream banking. MFS have the potential to reach those populations, specifically those in LMI communities. However, at this stage, the benefits of MFS are still largely unclear, and before advancing MFS it must be determined that they are an efficient, secure, and cost effective way to reach LMI communities. To help ensure that MFS benefit LMI consumers, MFS must be assessed under the CRA, but the primary emphasis under CRA exams must remain on physical bank branches.

While this comment has focused on how MFS can help LMI borrowers enter mainstream banking, a final issue to consider is how MFS and branches work together to provide economic support to communities. As Comptroller Curry stated in a recent speech, "The presence of a branch is not just an essential vehicle for providing financial services, it is a stabilizing force that helps determine whether communities thrive or just barely survive." [14] Strategic judgments on bank branches and their importance in CRA exams must consider how branches function as a vital economic anchor in communities, as well as how they provide access to basic banking services.

If you have any questions please contact me at NCRC, (202) 628-886 or at jtaylor@ncrc.org.

Sincerely,

John Taylor
President and CEO
National Community Reinvestment Coalition

[14] Thomas J. Curry, Comptroller of Currency; Remarks Before the National Community Reinvestment Coalition (March 18, 2016); available at: http://www.occ.treas.gov/news-issuances/speeches/2016/pub-speech-2016-29.pdf