FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Office of the Chairman

January 15, 2021

Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Ranking Member Brown,

I am writing in response to your recent letter expressing concerns about the Federal Deposit Insurance Corporation's (FDIC) 2019 report, *How America Banks: Household Use of Banking and Financial Services*.[1]

The FDIC's mission to support financial inclusion is personal to me. As an immigrant to the United States with few financial resources when I arrived as a teenager, I saw first-hand the benefits of building and maintaining a relationship with a bank. Early in my tenure as FDIC Chairman, I publicly shared[2] the painstaking process I had to go through to become banked in the United States, and I have continued to utilize the public platform afforded by my position to advocate for economic inclusion.[3] In fact, over the last two-and-a-half years, the FDIC has increased its efforts to support financial inclusion, particularly during the pandemic.[4]

That is why I was disappointed by your characterization of the good work of the FDIC's career research staff reflected in the report. As a person who actually struggled to gain full

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[1] *See* Federal Deposit Insurance Corporation (FDIC), *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (October 2020), available at https://www.fdic.gov/analysis/household-survey/index.html.

[2] *See* FDIC Chairman Jelena McWilliams, *I know what it feels like to be unbanked*, AM. BANKER (Oct. 29, 2018, 9:17 am), available at https://www.americanbanker.com/opinion/i-know-what-it-feels-like-to-be-unbanked.

[3] *See* FDIC Chairman Jelena McWilliams, "Creating a Financial System of Inclusion and Belonging," speech before The University of Chicago Law School and American Financial Exchange Webinar on "The Role of Minority Depository Institutions and Innovation in the Age of COVID-19" (Aug. 26, 2020), available at https://www.fdic.gov/news/speeches/spaug2620.html ("A significant part of my focus as FDIC Chairman has been bridging the gap between those that belong and those that do not. Because the FDIC is a bank regulatory agency, we have approached this issue from the perspective of financial services. We know that individuals from LMI communities are often the least likely to have the very banking and financial services they need most. With respect to minority communities in particular, despite meaningful improvements in recent years, the rates for black and Hispanic households who do not have a checking or savings account at a bank remain substantially higher than the overall "unbanked" rate. Similarly, black and Hispanic households are less likely to have mainstream credit (i.e., credit products that are likely reported to credit bureaus) across all income levels. And savings rates remain lower among these households, which results in greater difficulty dealing with unexpected expenses.").

[4] *See id.*

access to financial services, I strongly believe that these issues should not be politicized. As FDIC Chairman, I will continue to support the production of unbiased, non-political research by our economists and researchers, and the 2019 report is an outstanding example of their excellent work.

I can assure you that the survey continues to collect detailed statistics on the use of non-bank financial services by American households. While we have eliminated the potentially misleading and amorphous definition of "underbanked" from our 2019 analysis, there is extensive and detailed information in the report about households that use non-bank financial products and services, as in prior reports. There is an entire chapter in the 2019 report devoted solely to households' use of non-bank financial services, including comparisons between those households that have bank accounts and those that do not.[5] In addition, there is another chapter devoted solely to the use of bank and non-bank credit, which looks at different usages by race and ethnicity, income, and other characteristics.[6] Charts, graphs, and tables in each of these chapters provide a detailed discussion about the use of non-bank financial services and products by households that are "banked" and those that are "unbanked." Finally, the executive summary specifically discusses these issues.[7] We will continue to gather and report on this information in future surveys, and to make this data available for researchers and the public to download and analyze.

As explained more fully below, we have eliminated the term "underbanked" in the report that the FDIC publishes in conjunction with the survey. This is simply because the term is inaccurate due to the intrinsic subjectivity of the definition and the evolution of the financial services system. Importantly, the FDIC's past practice of changing the definition from one report to another makes it impossible (and potentially misleading) to compare results over time.

The FDIC utilized five different definitions of "underbanked" across six reports

In 2006, Congress enacted the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 ("Act").[8] The Act requires the FDIC to:

> conduct a bi-annual survey on efforts by insured depository institutions to bring those individuals and families who have rarely, if ever, held a checking account, a savings account or other type of transaction or check cashing account at an insured depository institution (thereafter in this section referred to as the "unbanked") into the conventional finance system.[9]

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[5] *See* FDIC, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (Oct. 2020), available at https://www.fdic.gov/analysis/household-survey/2019report.pdf.
[6] *See id.* at Ch. 7. Bank and Non-bank Credit.
[7] *See* FDIC, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey, Executive Summary With Preface and Postscript* (Oct. 2020), available at https://www.fdic.gov/analysis/household-survey/2019execsum.pdf.
[8] *See* Federal Deposit Insurance Reform Conforming Amendments Act of 2005, Pub. L. No. 109-173.
[9] 12 U.S.C. §1831z(a)(1).

The Act further lists factors and questions the FDIC should consider in conducting the survey.[10] Those questions and factors seek to identify the efforts that appear to be most effective in helping unbanked individuals and families establish accounts at institutions. Nowhere does the Act discuss the concept of "underbanked" individuals or households, nor does it discuss individual or household use of credit products offered by non-banks.

In your letter, you allege that "changes to the most recent [report] . . . undermine [its] utility in ensuring that banks and credit unions serve their customers responsibly." You also argue that, "the FDIC's decision to eliminate the experience of 'underbanked' households makes it impossible to adequately track whether the banking system you are charged with overseeing is providing traditionally underserved communities with the affordable services they need." This assertion implies both that the concept of an "underbanked" household has remained consistent over time and that the number of such households presented by prior reports serves as an accurate proxy for the accessibility and affordability of financial services by traditionally underserved communities. This is simply incorrect.

A close examination of the report's history shows why the most recent report provides for a more accurate and sustainable research model moving forward. The FDIC's first nationwide survey in this area was conducted in 2008[11] by Dove Consulting[12] based on responses from banks. In 2009, the FDIC conducted its first household survey by sponsoring a special supplement to the U.S. Census Bureau's Current Population Survey.[13] In 2011, the FDIC conducted two separate surveys: one was administered by Gallup, Inc.[14] as an update to the 2008 survey of banks, and the other was a household survey supplement administered by the U.S. Census Bureau.[15]

Because the FDIC utilized five different definitions of "underbanked" in six reports, as explained in more detail below, the past reports specifically caution against comparing "underbanked" results from one report to another:

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[10] *See* 12 U.S.C. §1831z(a)(2).
[11] *See* FDIC, *Banks' Efforts to Serve the Unbanked and Underbanked* (Dec. 2008), available at https://www.fdic.gov/unbankedsurveys/2008survey/unbankedstudy/FDICBankSurvey_Report.pdf.
[12] *See id*. at ii ("This Study was conducted by Dove Consulting on behalf of the Federal Deposit Insurance Corporation. The FDIC does not endorse any bank or product. The views expressed in this Study are those of the authors and not necessarily those of the FDIC.").
[13] *See* FDIC, *National Survey of Unbanked and Underbanked Households* (Dec. 2009), available at https://www.fdic.gov/householdsurvey/2009/Full_Report.pdf.
[14] *See* FDIC, *Survey of Banks' Efforts to Serve the Unbanked and Underbanked* (Dec. 2012), available at https://www.fdic.gov/unbankedsurveys/2011survey/2011report.pdf ("The FDIC retained Gallup, Inc. to help administer the survey of banks. Gallup, Inc. collected the survey results and reported findings which did not have bank-identifier information to the FDIC.").
[15] *See* FDIC, *National Survey of Unbanked and Underbanked Households* (Sept. 2012), available at https://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf.

> Underbanked rates from *the three surveys are not directly comparable* because of changes in the definition of underbanked households in both 2011 and 2013.[16]
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> Revisions made to the 2011 survey instrument led to changes in the definition of an underbanked household. Specifically, the inclusion of questions regarding households' use of non-bank remittances in 2011 and changes to the questions regarding the time frames during which households used [alternative financial services] *make it impossible to directly compare underbanked estimates across years*.[17]
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> The FDIC extensively revised the 2009 Bank Survey to create the 2011 Bank Survey instrument. Questions were revised and streamlined to improve the questionnaire and promote strong response rates. The survey also was converted from a paper-based to an Internet-based instrument, which provided greater convenience for the respondent. These improvements and revisions *make it largely impossible to compare results from the two surveys*.[18]

Specifically, while the FDIC has utilized a consistent definition of the term "unbanked" from one report to another, the agency has used five different definitions of "underbanked" in six subsequent reports (it is unclear what definition the FDIC utilized in connection with the 2011 survey of banks by Gallup Inc. because no definition of "underbanked" is offered in that report). While the term "underbanked households" includes those that have a checking or savings account, the FDIC has modified that definition differently from one report to another to include households that also:

(1) "rely on nonbank alternative financial service providers for transaction services or high-cost credit products" in 2008;[19]
(2) "rely on alternative financial services . . . [s]pecifically . . . have used non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements, or pawn shops at least once or twice a year or refund anticipation loans at least once in the past five years" in 2009;[20]
(3) "had used non-bank money orders, non-bank check cashing services, non-bank remittances, payday loans, rent-to-own services, pawn shops, or refund anticipation loans in the past 12 months" in 2011;[21]
(4) "have used at least one of the following alternative financial services from non-bank providers in the last 12 months: money orders, check cashing, remittances, payday loans,

[16] *See* FDIC, *National Survey of Unbanked and Underbanked Households* (Oct. 2014), available at https://economicinclusion.gov/surveys/2013household/documents/2013_FDIC_Unbanked_HH_Survey_Report.pdf (emphasis added).
[17] *See* FDIC, *National Survey of Unbanked and Underbanked Households* (Sept. 2012), available at https://www.fdic.gov/analysis/household-survey/2011/2011-unbankedreport.pdf (emphasis added).
[18] *See supra* note 14 at 11 (emphasis added).
[19] *See supra* note 11 at 1 n.1.
[20] *See supra* note 13 at 10 n.6.
[21] *See supra* note 17 at 4 n.2.

refund anticipation loans, rent-to-own services, pawn shops loans, or auto title loans" in 2013;[22] and

(5) "used one of the following products or services from an alternative financial services provider in the past 12 months: money orders, check cashing, international remittances, payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, or auto title loans" in 2015 and 2017.[23]

Your letter also states that the report "uses the unbanked as an umbrella term for underbanked communities." This, too, is incorrect. The 2019 report contains numerous pages that discuss the use of non-bank transactional services, such as the use of money orders, as well as non-bank credit, such as pawn shop loans. Use of those and many other transactions and types of credit are broken down by households that have bank accounts and those that do not. For the reasons discussed in this letter, the report simply no longer characterizes households as "underbanked" using any of the five definitions from the past or a new, also misleading definition. However, the report continues to provide extensive information, as in prior reports, about the use of non-bank products and services. In addition, that data are broken down by race and ethnicity, age, income, education, disability status, and other factors. Nowhere in the report is the term "unbanked" used to characterize those households that obtain non-bank services and products.

The evolution of non-bank financial products and services

The changing definitions of "underbanked" used in the past reflect the increasing difficulty of defining or measuring what it means to be "underbanked." Consumers often make choices not based on whether a service is offered by a bank or non-bank financial institution, but based on factors such as price or convenience. Since the survey was first published more than a decade ago, new financial products have proliferated, and it has become increasingly problematic to characterize individuals who have bank accounts as "underbanked" based solely on their use of financial products and services offered by non-banks. Further, both banks and non-banks may offer many of the same products and services. For example, the 2019 survey found that over 32 percent of banked households used non-bank peer-to-peer or person-to-person ("P2P") services.[24] Moreover, the majority of those banked households fell into the highest income and highest education levels surveyed.[25]

It would be misleading to classify as "underbanked" a well-educated, higher-income individual with a bank account, who uses a non-bank P2P service such as Venmo or Paypal, rather than a bank offered service such as Zelle. Characterizing these households as "underbanked" solely because they used a P2P service offered by a non-bank seems not only inaccurate, but also inapposite to the underlying statutory purpose of the survey: gaining a better understanding of the efforts by banks to bring the unbanked into the conventional finance system.

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[22] *See supra* note 16 at 4 n.2

[23] *See* FDIC, *National Survey of Unbanked and Underbanked Households* (Oct. 2016), available at https://www.fdic.gov/analysis/household-survey/2015/2015report.pdf; *see also* FDIC, *National Survey of Unbanked and Underbanked Households* (Oct. 2018), available at https://www.fdic.gov/householdsurvey/2017/2017report.pdf.

[24] *See supra* note 5 at 7 and 39.

[25] *See id*. at 38.

Similarly, both banks and non-banks may provide customers with products and services such as money orders or international remittance transfer services. Characterizing these services or products as "alternative financial services" (AFS) would be misleading. It is axiomatic that a product or service cannot be an "alternative" if it is the same product. Moreover, characterizing consumers who obtain a money order from a post office or consumers who send an international remittance transfer from a convenience store as "underbanked" also fails to capture how or why those consumers chose such products or services. These products may be obtained from a non-bank at greater convenience or at a lower cost compared to a bank.

The intrinsic subjectivity of defining "underbanked"

Any attempt to establish a meaningful definition of "underbanked" inevitably involves highly subjective decisions. For example, which non-bank services should be deemed to trigger a household being treated as "underbanked?" To illustrate the fluidity of that particular question, one need look no further than the FDIC's 2011 report, where the agency defined "underbanked households" as those "that have a checking and/or a savings account and had used non-bank money orders, non-bank check cashing services, non-bank international remittances, payday loans, rent-to-own services, pawn shops, or refund anticipation loans in the past 12 months" while "fully banked households may have used AFS more than a year ago or may currently use types of AFS not included in this survey."[26]

Should a household be characterized as "underbanked" if, for example, it "rarely" or "sometimes" obtains a money order from a post office or only a household that "often" obtains money orders from a post office? How about a consumer's single use of a postal money order to pay for a passport from the U.S. State Department? Similarly, what if a consumer sends an international remittance transfer from a grocery store? Under the definition of "underbanked" that the FDIC used in the past, a single purchase of a non-bank money order or non-bank international remittance transfer could qualify a household as "underbanked." These are just a few examples that illustrate how subjective the "underbanked" concept is, as evidenced by the FDIC relying on five different definitions across six reports.

Moreover, the FDIC conducts cognitive (field) testing of questions before including them in the survey instrument. Asking about matters such as the exact number of times a consumer has used a product produces questionable results. Thus, gathering information about the frequency of use of non-bank products and services would produce unreliable data that could not be used to evaluate accessibility or affordability.

Finally, your letter states that having the Division of Insurance and Research (DIR) conduct the report instead of the Division of Depositor and Consumer Protection (DCP) "is an alarming move that places the interests of banks before depositors and consumers." You seem to suggest that having career economists and researchers from DIR conduct the report – as was done in 2009 and 2011 – somehow changed the nature of the report in a negative way. Frankly, any such suggestion is a disservice to those FDIC staff who worked tirelessly to produce a product that will benefit the broader public, federal and state agencies, consumer groups, and

[26] *See supra* note 17 at 4 n.2 and n.3.

banks. FDIC career staff do not – and should not – design surveys, analyze and interpret data, and produce reports differently based on the name of their division or office or where they happen to be on an organizational chart. All FDIC employees share the same mission of serving the public, and I stand behind them and their work.

To answer your specific question, I would note that the decision to consolidate all FDIC research in DIR was made for several reasons. First, centralizing research in the FDIC's Center for Financial Research immediately created a more robust consumer financial research program at the agency. Second, the consolidation better enables the coordination and sharing of resources among economists and others researchers. Third, consolidating research activities further enhances the FDIC's reputation as a preeminent center for government research on all aspects of banking – including the impact on consumers. Given the increased resources available and the ability to produce more robust consumer research in other areas, the decision to produce the "unbanked" report in the Center for Financial Research promotes scholarship, efficiency, and scale. It is also worth noting that the "assignment" of the report did not occur in a vacuum – several DCP researchers who worked on the report in the past also joined DIR following the consolidation of research functions.

I am incredibly proud of the work of the FDIC staff on this important initiative and of our efforts during the pandemic to support the families and businesses that have felt the brunt of the economic impact. We will continue to strongly encourage banks to support these communities. These efforts, and our initiatives to promote innovation, will continue to increase access to credit and other financial services through our nation's banks.

If you have further questions or comments, please do not hesitate to contact me at (202) 898-6868 or Andy Jiminez, Director, Office of Legislative Affairs, at (202) 898-6761.

Sincerely,

Jelena McWilliams

Jelena McWilliams