United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

December 23, 2020

The Honorable Jelena McWilliams
Chairman, Federal Deposit Insurance Corporation
550 17th St, NW
Washington, DC 20429

Dear Chairman McWilliams:

We are deeply concerned that you have allowed political considerations to derail the Federal Deposit Insurance Corporation's (FDIC) 2019 report on unbanked and underbanked households. Without regard to the integrity of the history of this report, you have all but erased a vulnerable community that we care about – people who have access to bank accounts but are still not well-served by the banking system. Several changes made to the most recent biennial National Survey "How America Banks: Household Use of Banking and Financial Services" undermine the report's utility in ensuring that banks and credit unions serve their communities responsibly.

First and foremost, the decision to have the Division of Insurance and Research (DIR) conduct this 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. Prior reports by the DCP prioritized "expanding American's access to safe, secure, and affordable banking services"[1] while the new DIR report focuses on "maintaining public confidence in the U.S financial system."[2] Former FDIC Chairman Bair created the DCP after the 2008 financial crisis to ensure that communities and consumers traditionally marginalized by the banking system had a voice within the Corporation. We believe that the shift in departments responsible for the report have had a meaningful impact on its substance, focus, and conclusions. Primarily, in the 2009, 2011, 2013, 2015, and 2017 reports, the DCP focused on "Unbanked *and Underbanked* Households."[3] By contrast, after the report was handed off to the Division of Research, the report title and highlighted findings excluded the "underbanked" that had been a central focus of previous reports. To best address the complexities of the underbanked, the 2017 report segments underbanked households into two groups, those that only use bank methods to pay bills and receive income, and those that do not.[4] Additionally, the DCP compares the financial behaviors of these two underbanked groups to those that are unbanked and fully banked. The latest report by the Division of Research fails to incorporate these key distinctions, and instead uses the unbanked as an umbrella term for underbanked communities.

[1] https://www.fdic.gov/analysis/household-survey/2017/2017report.pdf
[2] https://www.fdic.gov/analysis/household-survey/2019report.pdf
[3] https://www.fdic.gov/analysis/household-survey/2015/2015report.pdf
[4] https://www.fdic.gov/analysis/household-survey/2017/2017report.pdf

According to the 2019 FDIC report, about 13.8% of Black households and 12.2% of Hispanic households are unbanked or underbanked, while only 2.5% of white households fall into these categories.[5] Today, the majority of unbanked and underbanked households are Black, Hispanic, and American Indian or Alaska Native.[6] The elimination of the term "underbanked" in the report disregards this population's unique relationship with banks. For decades, low- and moderate-income communities of color have been left out of the economic system. Many policies and practices, such as redlining, have wrongly allowed and supported race-based discrimination in financial services. Banks in the United States denied mortgages to people and in neighborhoods of color, shutting them out of traditional banking and a tool to build wealth. Although redlining is now prohibited, communities of color continue to lack equal access to mortgages and other loans. Data reported in 2019 under the Home Mortgage Disclosure Act show that Black applicants have a purchase loan denial rate of 15.9%, while their white counterparts have a denial rate of 7%.[7] In addition to mortgages, Black and Latino applicants apply for business loans at equal or higher rates than their white counterparts but face higher denial rates.[8] These results discourage communities of color from having strong relationships with banks.

Additionally, exclusionary practices like required minimum account balances, account maintenance fees, lack of branches in communities of color, and lack of bank financing for small mortgage loans, prevent communities of color from fully participating in banking. These households have bank accounts but lack full access to financial services, and therefore use alternative financial services like money orders, check cashing, and bill payment services.[9] These predatory services do not offer the same protections as traditional banks. Underbanked households often lack access to affordable sources of credit and resort to payday loans, which typically carry triple-digit interest rates and trap consumers in a cycle of debt. As a result, underbanked communities end up paying more for basic financial services than those that are fully banked. Indeed, the FDIC's failure to discuss these critical distinctions when the Division of Research eliminated the experience of underbanked communities in the 2019 report gives the misleading impression that 95% of households are now well-served by the banking system by simply being served at all. As the FDIC noted for years prior to the 2019 report, underbanked households were more likely "to have felt discouraged about applying for a credit card or bank personal loan or to have fallen behind on bills."[10]

Access to safe and affordable financial services is vital for communities and is even more important during the economic disruptions caused by the COVID-19 pandemic. 95% of workers in low-income households have been laid off or lost income because of the coronavirus.[11] The number of people who are receiving unemployment insurance is now over 20 million.[12] Unbanked and underbanked communities, living outside or on the margins of the financial system, entered the pandemic at a disadvantage that has now only gotten worse as digital

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[5] https://www.fdic.gov/analysis/household-survey/2019report.pdf
[6] https://www.fdic.gov/analysis/household-survey/2019execsum.pdf
[7] https://files.consumerfinance.gov/f/documents/cfpb_2019-mortgage-market-activity-trends_report.pdf
[8]https://www.newyorkfed.org
[9] https://www.fdic.gov/analysis/household-survey/2019report.pdf
[10] https://www.fdic.gov/analysis/household-survey/2017/2017report.pdf
[11] https://www.marketwatch.com
[12] https://www.dol.gov/ui/data.pdf

payments have become the preferred method for financial interactions. For example, unbanked and underbanked communities had to wait weeks or even months to receive their mailed stimulus checks or debit cards. Once they received the check or debit card, many individuals used a check cashing location or ATM and were forced to pay additional fees –this is the difference between having access to a bank account and having *affordable* access to the *banking system.*[13]

Ultimately, 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. As such, we have important questions about the decision-making process and substance of the 2019 report.

Accordingly please respond to the following questions no later than January 15, 2021.

1) When was the decision made to have the 2019 report led by the Division of Research?
2) Who made the decision and what was the justification for that decision?
3) Who made the decision to change the title of the report?
4) Who made the decision to remove consideration of underbanked populations from the published report? What was the justification for those decisions?
5) What was DCP's involvement in the above decisions?
    a. Was DCP leadership offered the opportunity to object to changes to the title and content of the 2019 report?
    b. Were any objections offered, and if so, by whom? Please provide any documentation of such objections to my office.
6) Was there any attempt to refine the definition of underbanked rather than to remove it from the report entirely? Why was the category of underbanked eliminated rather than refined? Why did the published report make no mention of this substantive change to the traditional focus and content of the report?

Thank you for your prompt attention to this matter.

Sincerely,

/s/ Sherrod Brown
Sherrod Brown
United States Senator

/s/ Elizabeth Warren
Elizabeth Warren
United States Senator

/s/ Tina Smith
Tina Smith
United States Senator

[13] https://sacobserver.com/2020/04/48-9-million-unbanked-consumers