



Testimony Submitted in Advance of the CRA Public Hearing August 6, 2010 Held at the Federal Reserve Bank of Atlanta

Ed Kenny

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An examination by Expert Financial Systems LLC, a provider and processor of prepaid debit card solutions, for the need of expanded review of the Community Reinvestment Act to include non-credit depository services in the regulatory assessment of a bank's performance.

CRA initiative focusing on the availability of banking services to the underbanked or credit challenged in a diverse community.

The underserved, underbanked communities, while traditionally thought of as the lower income neighborhoods, may not be practically served with brick and mortar branches, however readily accessible convenience or general merchandise retail establishments may be rapidly and economically utilized to become Remote Deposit Capture (RDC) or loading locations. Recent advances in kiosk technology with web conference attendants, cash acceptors, bill payment, and check cashing, are now on the horizon further making this type branchless banking even more accessible.

The community or potential bank account market segment needs ready access to payment and savings devices and methods.

What is a community?

Is it necessarily a geographic area, a neighborhood, or is it a group of customers that may be scattered nationwide bound by an affinity or membership?

As described in the current CRA regulation for banks serving military personnel, the assessment area may be defined as the entire bank customer base which in essence abandons assessment areas altogether and does not address non-customers who are not served.¹

Therefore, similarly any diverse and geographically unbound group of bank deposit customers can be considered a community. Examples of such unbound communities are affinity, membership, and employee groups.

Deployment of banking services to these unbound communities is accomplished with RDC and Branchless Banking² Debit Card issuance. These Debit products and services can be treated as paperless NOW accounts with account holders acquired via branchless banking. The Account deposits are made by traditional direct deposit ACH mechanisms and cash at account servicing locations.

The Account holders have access to online and telephonic banking services including account management, bill payment, historical data, funds movement, purchase of additional banking services such as insurance, CDs, etc. Micro loan programs, similar to overdraft protection and

¹ The 30th Anniversary of the CRA: Restructuring the CRA to Address the Mortgage Finance Revolution

² See Appendix:



offered at competitive rates, can be designed to add value for the account holders that qualify for the loans.

While most of these concepts are not new, what is required for proper CRA is a low to no cost account holder value proposition.

In today's marketplace of prepaid debit cards, what is typically found are monthly and transaction fees that can cost the account holder over \$5.00 per month. Often there are also ATM withdrawal fees over \$2.00 which does not include the ATM owner's fee or surcharge.

The Card Act regulations have eliminated the overdraft fee on debit cards, which was found to be particularly burdensome by the unaware consumer.

Today, the main reason higher fees are found on reloadable prepaid card products is the legacy pricing models that have only now begun to evolve.

Ten years ago, when prepaid debit card products first emerged in the market place, these products were designed primarily by marketing entrepreneurs and not banks. So what developed was a system by some banks of a Rent-a-BIN business model where the marketing companies became card program managers for the card issuer banks. The early Rent-a-BIN banks developed a wholesale pricing scheme for the program managers that is found today as a near uniform design across varied institutions, and has been met with very little competitive force to compel reduced rates.

The same sort of fee history can be observed within the third party processing service provider segment of the model costs.

So when you add Rent-a-BIN, third party processor, card fulfillment, and sales commission costs together, the cardholder is left with a fairly expensive banking services access device.

If the product is expensive to the account holder then there are arguably no CRA benefits delivered by the issuer from prepaid debit card programs.

In conclusion, a streamlined issuance process with less layered production costs, coupled with feature rich Reg -E account delivery at remote locations can provide banking services, an access device to an FDIC insured account for use of payment for goods and services, bill payment, and a savings vehicle at a low to no cost to the consumer.

We thank you for allowing this forum and us the opportunity to express our support for an expanded review of the Community Reinvestment Act to include non-credit services in the regulatory assessment of a bank's performance.

APPENDIX

Branchless banking is a distribution channel strategy used for delivering financial services without relying on bank branches. While the strategy may complement an existing bank branch network for giving customers a broader range of channels through which they can access financial services, branchless banking can also be used as a separate channel strategy that entirely forgoes bank branches.

By the definition of the Consultative Group to Assist the Poor (CGAP)³, branchless banking comprises essentially all of the following elements:

- Use of technology, such as payment cards or mobile phones, to identify customers and record transactions electronically and, in some cases, to allow customers to initiate transactions remotely
- Use of (exclusive or nonexclusive) third-party outlets, such as post offices and small retailers, that act as agents for financial services providers and that enable customers to perform functions that require their physical presence, such as cash handling and customer due diligence for account opening
- Offer of at least basic cash deposit and withdrawal in addition to transactional or payment services
- Backing of a government-recognized, deposit-taking institution, such as a formally licensed bank
- Structuring of the above so that customers can use these banking services on a regular basis (available during normal business hours) and without needing to go to bank branches at all, if that's what they choose

Examples of branchless banking technologies are the Internet, automated teller machines (ATMs), POS devices, EFTPOS devices and mobile phones. Each of these technologies serve to deliver a set of banking services and are part of distribution channels that may be used either separately or in conjunction to form the overall distribution channel strategy.

³ The **Consultative Group to Assist the Poor (CGAP)** is a consortium of 33 public and private development agencies working together to expand access to financial services for the poor in developing countries. CGAP was created in 1995 by these aid agencies and industry leaders to help create permanent financial services for the poor on a large scale (often referred to as microfinance).

CGAP serves four groups of clients: development agencies; financial institutions including microfinance institutions; government policymakers and regulators; and other service providers, such as auditors and rating agencies. To each of these client groups, CGAP provides specialized services—advisory services, training, research and development, consensus building on standards, and information dissemination.

CGAP is headquartered in Washington, D.C. and operates on an annual budget of \$10 million.