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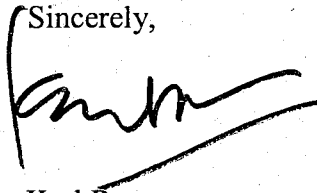
May 9, 2002

Dear Mr. Franco,

Thank you for your May 8<sup>th</sup> letter and the information about the National Council on Financial Access. I will share the information with the Domestic Policy Council for review as we begin to frame our policy on welfare reform. I appreciate you taking the time to write.

Thanks again.

Sincerely,



Karl Rove  
Senior Advisor to the President

Mr. George Franco  
Chairman and CEO  
National Council on Financial Access  
700 West Virginia Street  
Suite 700  
Milwaukee, Wisconsin 53204-1549

KR:sbr

cc: Jay Lefkowitz

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# Fax

**To:** Ms. Susan Ralston **From:** Geo Franco

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**Fax:** (202) 456-0191 **Date:** May 8, 2002

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**Phone:** (202) 456-2369 **Pages:** 7 Pages Includes Cover Sheet

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**Re:** President's Leadership Role in Relation **CC:**  
Financial Access for Low-income  
Consumers

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**Comments:** Susan,

Thank you for your assistance. I will follow-up with you tomorrow to make further arrangements.

Sincerely,

George

*Thanks again Karl.  
I look forward to working  
with you on this.*

07 May 2002

**VIA ELECTRONIC MAIL**

Mr. Karl Rove  
Senior Advisor to the President  
The White House  
1600 Pennsylvania Avenue  
Washington, D.C. 20500

Re: President's Leadership Role in Relation to Financial Access for Low-Income Consumers

Dear Karl:

Thank you for taking the time to meet with me last Friday while you were in Milwaukee. I was delighted to have had the opportunity to brief you on the National Council on Financial Access and appreciate the support and enthusiasm you expressed related to the President's leadership role on the issue of financial access for 30 million low-income consumers throughout the United States.

In reference to the President's welfare reform agenda, financial access is critical to self-reliance and financial independence among low-income consumers. Savings is the first financial asset a family acquires. As such, access to banking and financial services presents an opportunity for low-income consumers to develop their own "safety net."

We look forward to President Bush's leadership in a CEO forum to engage private industry in the delivery of low-cost banking and financial services to low-income consumers, including remittances.

I will follow-up with your office to make the appropriate arrangements in order to proceed. Thanks again for the opportunity to meet with you and for your support.

Best Regards,

**NATIONAL COUNCIL ON FINANCIAL ACCESS**



Geo. Franco  
Chairman & CEO

# Collier Shannon Scott

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## MEMORANDUM

April 30, 2002

**TO: ANDREW CARD**

**FROM: THOMAS J. BLILEY, JR.  
SENIOR GOVERNMENT RELATIONS ADVISOR**

**RE: NATIONAL COUNCIL ON FINANCIAL ACCESS**

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### Executive Summary

A substantial opportunity exists for the President to take a leadership role on the issue of providing low-cost banking and financial services to some 30 million, mostly low-income, underserved consumers throughout the United States. This memorandum describes the National Council on Financial Access ("NCFA"), a non-profit organization dedicated to the development of market-driven approaches for the delivery of such services. It also highlights the role the President can play as a catalyst for industry participation in efforts to reach the underserved population.

- ◆ Financial services access and financial literacy are issues that have received tremendous attention recently in a number of public policy fora. These issues are of particular importance in low-income urban and rural communities, where consumers now pay high fees for check cashing, loans, and other basic payment services, including remittance fees ranging as high as several hundred dollars. Included among the affected population are the 10 million Hispanic Americans who send 7 or more remittances per year to Mexico and Latin America.
- ◆ While these issues present a public policy dilemma, their resolution does not require substantial government intervention. Rather, market-driven solutions exist to provide low-cost access to banking and financial services.
- ◆ NCFA is a newly formed, non-profit entity made up of the CEOs of some of the largest corporations in the United States, who understand the need for, and benefit of, banking and financial services for low-income individuals, and who also recognize that service providers must meet their obligations to shareholders.

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- NCFA has developed a financial service provider network model (detailed herein) that includes existing national, regional and local banks, credit unions, savings banks, supermarkets, retailers, community and faith-based organizations, and state government agencies, all of whom will come together in a non-exclusive manner to provide low-cost access to financial services for low-income consumers. NCFA welcomes all to participate as part of this market-driven solution.
- Products and services to be offered through the network include: specialized savings vehicles (Individual Development Accounts featuring matched funds), low-cost credit in the form of consumer micro-loans, a low-cost money transfer alternative that includes remittances, direct deposit, check encashment, and electronic bill payment. These services represent a \$5 billion new efficient revenue opportunity for the NCFA service provider network, even at 1/3 the price paid by low-income consumers to non-bank service providers (check cashers and payday lenders).
- NCFA requests that the President seize the opportunity to lead on the issue of financial services access, in part by participating in a meeting of financial industry CEOs to discuss this emerging market opportunity and the need for market-driven solutions.

## **I. Introduction and Background**

The Federal Reserve Board reported recently that 9.5% of all American families are without any of the basic transactional financial accounts (i.e., checking, savings, etc.) that many in our society take for granted.<sup>1</sup> The vast majority of these families (approximately 85%, or 11 million) fall within the traditional definition of low- and moderate-income.<sup>2</sup>

In all, as many as 30 million Americans are either "unbanked" (lack a basic financial account) or "underbanked" (own an account but do not interact regularly with a financial institution).<sup>3</sup> With nowhere to go for traditional financial products, they inevitably turn to a host of high-cost services including fee-based check-cashing, payday loans, percentage-fee remittances (money transfers), money orders, and high-interest financing, all offered by non-traditional, "predatory" lending and financial institutions. The cycle of low-income levels

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<sup>1</sup> Arthur B. Kennickell, Martha Starr-McCluer, and Brian J. Surette, *Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances*, Federal Reserve Bulletin (January 2000), p. 8.

<sup>2</sup> The threshold used to define "low to moderate income" is 80 percent of the median of national family income. See Jeanne M. Hogarth and Kevin H. O'Donnell, *Banking Relationships of Lower-Income Families and the Government Trend Toward Electronic Payment*, Federal Reserve Bulletin (July 1999), p. 460.

<sup>3</sup> For example, one study shows that approximately two-thirds of individuals using a check-cashing service possess at least one transactional account.

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leading to high-service costs leading to lack of savings and credit becomes difficult to break. Indeed, without access to appropriate vehicles for savings, investment and credit, it becomes exceedingly difficult, if not impossible, for many in this "alternative" economic system to establish their own financial "safety nets," let alone realize the American dreams of home ownership, children's higher education, and retirement. As a result, low- and moderate-income consumers continue to be less engaged in the mainstream U.S. economy.

The National Council on Financial Access is a non-profit organization created by national and regional business leaders to fund and effectively deploy financial access and financial literacy strategies in connection with its national partners. Among the Council's chief objectives are the provision of high-priority, low-cost financial products and services to low- and moderate-income consumers, and the migration of those consumers into the American economic mainstream. Through its financial service provider network model (described in more detail below), financial literacy initiatives, and media messaging capabilities, NCFEA will deliver market-driven, self-sustainable products and services to the low- and moderate-income community, and will produce measurable results in terms of the conversion of "unbanked" and "underbanked" individuals to "fully banked" status.

## II. NCFEA's Financial Service Provider Network Model

Historically, traditional financial institutions have faced two key difficulties in accessing the low- and moderate-income banking market. First, the high-volume, low-dollar, transactions typically engaged in by low- and moderate-income consumers are relatively inefficient for a bank to process. Second, the relative inexperience of low- and moderate-income individuals in using traditional financial institutions has led to a general reluctance to do business with such institutions. Surveys show that many people in this income category report that they "do not like dealing with banks," or that they "don't have enough money" to justify opening an account.<sup>4</sup>

NCFEA has developed a financial service provider network model that will allow participating financial institutions to reach low- and moderate-income target consumers in a cost-effective, profitable manner. At the core of the Council's initiative is a financial services network to be comprised of a number of participating national and regional financial institutions. This financial services provider network will provide access to products and services designed specifically for low- and moderate-income consumers. These include specialized savings vehicles (Individual Development Accounts and Consumer Development Accounts), direct deposit, check encashment, check issuance, micro loans, electronic bill payment, and money transfer alternatives (including remittances). Customer accounts will be accessible through the existing branches and ATM locations of participating firms. In this way, the network will operate much like the ATM networks in existence today.

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<sup>4</sup> See, e.g., Hogarth and O'Donnell, *supra* note 3, at p. 461-63.

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The cost-effective revenue opportunity available to participating institutions is conservatively estimated to be \$5 billion per year, even at reduced fees. Moreover, by pooling resources (including shared technology), eliminating significant facility costs (using existing branch and ATM locations as points of service) and distributing costs over a broad base, network participants will benefit from greater reach and penetration, more efficient scale, and substantially reduced operating costs. Thus, they will be able to serve the target market profitably for the first time. Meanwhile, consumers will be afforded access to less expensive services at more locations. In short, the network model provides a classic example of the "sum of the whole being greater than that of its individual parts." Already, major banks such as U.S. Bancorp, Bank One, Citigroup, and Bank of Montreal have agreed to participate in the project.

A critical component of the network model will be the staffed transaction environment, in which customers will be led through an array of options by trained tellers. Thus, in the course of one interactive session, consumers can be prompted to take advantage of the matching funds available with Individual Development Account deposits, encouraged to sign up for direct deposit, offered the option of paying bills electronically (versus through counter checks), discuss and receive micro loans, and be made aware of low-cost money transfer alternatives, including remittances.

NCFA will facilitate the migration of customers to the consortium network by soliciting the participation of a host of community- and faith-based groups, as well as state and local government organizations. These organizations will be equipped to set up accounts for qualifying individuals, and will also serve as distribution points for financial literacy information. As low- and moderate-income consumers become integrated into the banking system, they will become more comfortable with financial institutions in general. Moreover, as consumer development occurs over time, customers will begin to migrate to the traditional products and services offered by the individual participant banks.

Thus, the NCFA model promotes a low-cost, market-driven, profit-oriented approach to reach the maximum number of underserved consumers in the most efficient manner possible.

### **III. Partnering with the President**

The twin issues of financial access and financial literacy have received increasing political attention in recent months. Congressional hearings already have been held on remittance fees, and more are planned next month on issues faced by the unbanked population. Numerous legislators have made speeches calling for financial access and literacy programs. Meanwhile, President Fox of Mexico has identified remittances as one of the critical areas for discussion with the United States, and the issue (along with other financial access and financial literacy topics) has received considerable attention within the U.S. Hispanic community. Sometime next month, the Treasury Department will award \$8 million in federal grant money for initiatives designed to migrate unbanked individuals to banked status with a federally insured



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depository institution. Finally, the Comptroller of the Currency has made financial access a priority in several recent speeches.

Initiatives such as the model developed by NCFE provide a tremendous opportunity for the Administration to take a leadership position on these topical issues. Encouraging efforts to reach out to the unbanked and underbanked communities with low-cost access and financial literacy programs, particularly through network models such as that sponsored by NCFE, makes sense on a number of levels:

- **Migration of Unbanked and Underbanked Consumers Will Produce Significant Positive Impact On The U.S. Economy** - The initiative will help close the prosperity gap by providing the tools for low- and moderate-income consumers to build their own safety net (thus reduce their dependence on government assistance, thereby producing a cost savings to tax payers). Additional benefits include: an increase in per capita income, a stabilized workforce and corporate tax savings. Through its chief economist, NCFE will measure the economic impact on low-income households as well as on the U.S. economy as it relates to effective financial access for low-income consumers.
- **The Approach is Market-Driven** - The case for serving the unbanked and underbanked population is based on sound business principles, and legitimate profit opportunities. Thus, it relies upon market forces and the enlightened self-interest of participating financial institutions rather than a regulated approach. New technology and the network approach bring profit to the equation for the first time.
- **The Network Model Requires Minimal Government Intervention**- The initiative proposed by NCFE, and others like it, would require little additional government legislation, regulation or intervention. Rather, the network approach relies on market economics and rational business-case scenarios based on the current business environment. Such market-driven approaches typically provide the greatest likelihood for success.

The President has the opportunity to seize the leadership role on the issues of financial access and financial literacy. By emphasizing to the business community the need for market-driven solutions, he can have a profound effect on participation in efforts such as that proposed by NCFE. The Council requests that the President participate in a meeting of financial industry CEOs, sponsored by NCFE, designed to focus industry efforts on the new market opportunities that exist in the delivery of low-cost banking and financial services to consumers who are low-income.

We look forward to our continued dialogue in reference to this unique leadership opportunity for the President to promote access to the financial mainstream for millions of low-income consumers throughout the United States.