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P R O C E E D I N G S

MR. BUSH: Okay I think we're going to go ahead and get started. Good morning, everyone and thanks for joining. For our panel this hour, we're going have what I hope will be a lively discussion of a very important topic for the banking industry. And that is trends in how banks provide and how customers access banking services. And we're going to try to address that across a range of topics including mobile banking technologies, decline in physical branches, LMI neighborhood access to financial services, availability to credit for small business and individual consumers and bank share of mortgage credit.

And we are fortunate to have a wealth of experience and expertise on our panel. And I'm not going to bother with long intros, you have their very impressive bios in your materials. But just quickly to my right is Don Felix who is head of Financial Health, Consumer Banking at JPMorgan Chase. Mike Calhoun with us from the Center for Responsible Lending. And just to show you how far we've come, when Don say Mike in the lobby and said hello, he said I feel like I want to give you a hug. And Doug Elliott who is a partner at Oliver Wyman, I guess a little out of order there. And Andy Navarrete, Executive VP, External Affairs at Capital One. And Paul Calem, many of you know, Senior Vice President for Research at BPI.

And before we start, I want to say a special thanks to Francisco Covas. Is Francisco here? Oh, there he is. Francisco not only designed this panel he's also written a very interesting note in the spring that you may have seen on banking deserts. But he also recruited the panelists and just generally got us organized so thank you, Francisco, for that.

So, as far as format goes, I think we're just going to have each of the panelists talk for five minutes, less than ten just share their perspective on some of these trends and what they see. And then we'll have a bit of a discussion. I'm hoping that there's some divergence of views on these topics and some friendly debate. If Mike agrees with everything else, he hears on the panel, we will have failed our mission, I think.

MR. CALHOUN: Rest assured.

MR. BUSH: And besides, we're competing for attention with the House intelligence committee hearing which I know somebody has got on their iPad out there watching. So, I hope to mix it up a little bit.

MR. NAVARRETE: I've got one up here, actually.

MR. BUSH: Anyway, and then we'll have time hopefully for questions and comments from all of you. So, with that, I think Paul is going to kick it off.

MR. CALEM: Okay well thank you for the opportunity to talk about this topic. It's a very timely and interesting topic. There have been a number of recent studies addressing trends in banking, provision of banking services. There are some concerns based on recent trends. So, I'm going to cover as much as I can in five minutes. There's been a lot, as I said, there have been a lot of studies and data coming out recently.

But let me just, to set the stage, what are the basic concerns? Well, one is decline in the number of bank branches. Philadelphia Fed recent paper noted that the number of branches has declined about 10 percent since 2009, between 2009 and 2018 from 88,000 to 80,000 rounding off of course.

And, you know, the percentage decline though one thing that's notable even without controlling for various, you know, factors that influence whether or not the number of branches and how they change. It's really been pretty similar across different neighborhood income ranges until you get to the upper income range. So, if you go from middle, moderate, lower, it's about roughly 10 percent across the board. And then in the upper, greater than 120 percent of median income for an area, then you see a smaller decline, probably around 5 percent or even less. But, you know, so that's one factor.

Then another trend that people have been concerned about is what they call loss of market share of banks in mortgage originations. And that's been very dramatic in FHA lending. Non-banks now originate about 80 percent of FHA loans. But in conventional conforming size loans, and I say conforming size because banks don't necessarily sell all their loans to the GSEs. Non-banks are about 50 percent and there also has been an upward trend in their share since 2012 or so, 2013. So, those are two concerns. Another one that people have talked about and this is a more recent trend is in small business lending, the growing role of fintechs online lenders, so that's a third one.

So, what I want to say in whatever couple minutes I have left is that, you know, these things are much more nuanced then just these trends. Let's start with branching. Francisco's study that was just noted here actually looked at the prevalence of banking deserts. Okay, what he called and he defined a banking desert in a very specific way within two miles of a census tract in an urban area within two miles of a center of a census tract in an urban area. Within five miles within mixed kind of in between in terms of population density, urban versus rural. And then within ten miles in a rural area.

And he found, number one, that there aren't that many banking deserts in terms of the banking population of census tracts. In the entire population, only about 6 percent of people live in what he called a banking desert. No bank branch within a certain radius.

And it hasn't really changed since 2010 so that's something important.

Now, of course, it's higher in rural areas. About 10 percent live in a banking desert. But again, the change since 2010 has been just marginal. It's gone from about 10 to 10.7 percent. And, you know, again, this is just based on a very specific definition but doesn't seem like the number of banking deserts is growing. And in urban areas, they're relatively rare as well, only about 2 percent and hasn't changed.

Also, surprisingly it's consistent with the numbers I said before from the Philadelphia Fed. If you look by income range, middle income seems to be the range with the largest percentage of banking deserts and low income actually doesn't seem to have that large fraction. But I guess that's predominantly because the low income population may be in more urban areas.

So, overall there hasn't been much change in prevalence and it's not as high as, you know, I guess if you live in a banking desert it's a problem. But overall for the population, even in rural areas it's only about 10 percent and only about 6 percent overall.

So, another interesting paper on the issue of banking deserts, again, from the Philadelphia Fed. I'm probably running out of time but this is an important paper because it controls for multiple factors at influence a number of branches and they look specifically at branch openings and closings. And they, you know, after controlling for factors, they don’t really see a larger decline in a number of branches in lower income areas. And, in fact, they find that what they call a CRA effect which is as the area goes below this 80 percent threshold for defining CRA eligibility branch closure becomes less likely. So, it looks like there is an affirmative effort to not close branches as you get below the CRA threshold. So, I think that's an important finding. I would also talk about the mortgage and some mortgage and small business lending facts but I think I need leave some time.

MR. BUSH: Okay, well that's fine maybe we can come back to mortgages in a bit.

MR. CALEM: Come back to it later.

MR. BUSH: Maybe we'll turn next to Mike to see how you see the landscape.

MR. CALHOUN: Thank you. So, first of all, I think most people know the Center for Responsible Lending is a policy affiliate of community development lender that runs depository institutions. We have about 75 retail branches across a half a dozen states in the country with a high representation of LMI households in it.

The first part I'd say is the importance and this is playing off some of the comments of the first session today of bank access for LMI customers. There have been a number of studies, if you are out of the banking system it is very hard to function in this world, very expensive. It is a key part of economic mobility in this country in which there's been much that that has declined in recent years.

The CRA following up on some of those other studies, the Fed, in the context of proposals to the revised CRA has done exhaustive data review and shown just how much investment is generated through CRA. That it's been quite effective. There have been other studies that have shown, for example, there was a quirk in 2013. They redefined CRA areas, showed significant reductions in small business lending when an area lost it CRA designation.

On the deserts and oases as it says, I think everybody knows, you know, if you go to San Francisco, it may be the most famous Utah as well. You get high concentrations of CRA credit due to the current test that's largely based on bricks and mortar branching rather than the actual business financial footprint.

I think you'll see in the CRA comments coming up, there is widespread agreement that the CRA credit and duty should more apply to the financial footprint rather than just the bricks and mortar. So, you end up San Francisco again, Utah, where people are actually bidding up the cost of CRA eligible product, projects. New York is also cited. New York is big and also has lots of LMI folks here. So, I think that one is sort of a false example of an oasis.

Let me go and quickly talk just on a couple of other topics. As a provider of full range of retail services, we do deposit accounts, credit cards, auto loans, mortgages, small business loans, you know, the whole bank. The challenge that all of us face is that manual provision of services is just extraordinarily expensive. In person face to face transactions for routine transactions are very costly. Call centers are a little better but it's like an order of magnitude or more down if you can do it digital.

So, with digital, some of the things that we see and other bank partners we work with are doing, one, encourage direct deposit through incentives in the accounts. Two, checks are just a huge challenge. They're a fraud issue and so encouraging moving away from checks, again through incentives and through real time payment credit.

Checks and increasingly ACH and even point of sale debit cards also generate huge overdraft fees. That's beyond the topic of this but I urge you to look at your data. You'll find that a few percentages of your customers are paying the majority of those fees with a number of LMI households paying over 20 of them a year. And repeated studies have shown this. The FDIC in 2008, found the average high frequency over drafter was paying over $1100 a year in overdraft fees. It's just the nature of the product, that's where all the volume in revenue come from. And it also related to this, drives people out of the banking system because it crashes and burns a lot of their bank accounts and the bank accounts get closed.

To follow with just two quick things on time. One, to flag, these are both things that are in play now regulatorily is in using fintech, two warnings. One is, discriminatory impact of AI, it's been in the news. A lot of fintech firms, this is not high on their list. I'm meeting with one well known fintech pioneer who said, you know, early on the regulatory council was employed like a hundred at a lot of the fintech firms. Now the better ones realize you need them on the front side.

But you've had three big companies. You've had the recent Apple, you had Amazon using a database of facial recognition to determine good management candidates. They were shocked to get an all-white male result from it when they used For Real as their database, their existing management as the input. And then you had Facebook, you know, they had on their ads, you pay by the click through. So, they had a page on the public ad setup on their website that allowed you to toggle which Facebook users you wanted to receive your ad by race.

And so, you could check if you wanted, Black or Hispanic people to receive, White were a default that you could not check out of. But, you know, no alarms went off there and they actually defended that practice for a while.

Other regulatory ones, just real fast. People have solved this week action OCC and FDIC about so called Madden Rule. And without going into the depths there, there is going to be a related aspect of that which I would refer to rent a bank. And this is partnering with the fintech who primarily wants the use of your charter to be able to preempt state laws. That's going to come to a real head.

Many people may have seen California surprisingly used to have unregulated interest rates for consumer loans over $2500. They moved that down pretty modestly to 38 percent but had developed in the interim a very large high interest rate market. Where you had over a billion dollars of loans originated every year at triple digit interest rates. So, example of one of these we use, if you borrow $5000 for 7 years at 130 percent interest your repayment is just over $42,000.

Several of those companies have openly pledged to continue that lending after the passage of this act by using a rent a bank partnership. I think that will get a lot of attention and really tee up this issue for the regulators. I've got comments on the False Claims Act and the only thing there is as I think everybody knows FHA, HUD's got those out for comment. That is what's been blocking the big banks, at least in the FHA market. I would urge you to look at that. I think this is one of those once in a decade opportunities to fix a major problem there and we need a robust comment on that.

MR. BUSH: Terrific, thank you, Mike. I think maybe next we'll turn to Andy in case apart from anything else you were going to say you may have a word on overdraft fees.

MR. NAVARRETE: Sure. So, thank you, Derek, for hosting this and BPI TCH for putting together this panel. You know, I think always sort of trying to look to kind of contextualized issues and draw connections between different things that I think we're likely to hear at this conference. And both hearing the comptroller this morning talking about CRA and CRA being good business. And then later, the second panel talking about the, you know, almost ubiquitous debate about fintech versus traditional banks.

There are two things that sort of struck me about that. And, you know, when we kind of look at the economics of how banks provide services, it's an inexorable fact and trend that branches are, in many respects, growing increasingly uneconomic. That's not to say, you know, there are certainly companies that are very branch heavy or banks that are very branch heavy. There are certainly, you know, different fintechs and other players that have tried an online only presence. Not surprisingly, the answer is probably somewhere in between.

There are banking services that can be conducted purely in digital form but there are others were either consumer preference or the peculiar nature of the transaction suggests that some kind of physical presence is necessary.

But rather than, I think, sort of focus on a number of branches and whether that's declining increasing in certain markets, I think we need to focus on exactly how services are being delivered and for what purpose. And then what is the right blend or mix to make sure that we are reaching the broadest segment of the marketplace.

So, at Capital One, we're both a full spectrum lender and a full spectrum banker. And so, we want to appeal to all segments of the marketplace. But the fact is is that customer behavior has shown us time and time again that branch visits are down. And so, if branch visits are down, you don’t need as many of them. And if you don't need as many of them then you need to think about other ways to reach your customers and to provide those services in a way that appeals to them.

One of the things that I think is disheartening, you know, I think we can get into the details of that in a moment about how Capital One and I think other institutions are looking to strike that right balance. But one of the things I would like us to at least consider collectively moving away from is the kind of fintech versus banking narrative. One of the things you often hear, there was a, you know, not to despair, there was a piece in the *American Banker* recently where, you know, it was sort of the age of data of like, you know, banks are expensive or banks are confusing or banks are intimidating. And then fintechs have all these sorts of wiz bank features that consumers are craving.

The fact is and I would think every banker in this room would echo this is that there is a ton of innovation going on within the banking industry. When you think about the kinds of products whether it be chat box, alerts, Zell versus Venmo. You know, the only thing I've sort of come across in terms of the experience with Zell is that I can't share where I've eaten dinner with social media. But I'm not sure that at my age and my circumstances or whatever that's a feature I'm actually excited about.

And so, you know, when you think about, like I said, all of the various services that we are told repeatedly that consumers crave, I think the banking industry is actually doing quite a good job of providing those. There's always the complaint about expense and I think Mike, by the way, raises a very, very good point about overdraft. And I think we, you know, in a separate forum and in a separate conversation should be talking about that.

But nevertheless, when you think about, you know, the availability of banking services that are free or available for a fairly nominal monthly sum. You know, I was struck by the fact that 10 million people in one day signed up for Disney Plus at $6.99 a month to watch Moana for the 50th time. And yet somehow that same amount for a bank account is considered outrageous.

Again, I mean, this is not to sort of whine about woe is us as a banking industry. It's much more to focus on this motion of let's actually rationalize this debate and not do so in a way that discourages customers from finding these services and finding their way into the traditional banking system. Still a quarter of this country remains unbanked or underbanked. Thankfully, that data shows that the number is declining between the studies that are done every other year. And we should have another study from the FDIC later this year. But you see that number declining by about 150 to 200 basis points per cycle. That is a good news story but again, we need to do more to encourage that.

I'll sort of conclude by maybe tying in another conversation around CRA. And so, you know, what I loved about the way the comptroller was phrasing that discussion was he was talking about CRA being fully integrated into the business of the bank. And I think that's definitely the way that we like to look at it. This is just in many respects another way of serving a constituency that we want not only to meet our regulatory obligations but for good and sound business reasons.

And so, when you sort of think about your CRA activities, what are we doing collectively as an industry to not only encourage but to enable these customers that we serve through CRA means to transition into the mainstream of the financial services industry. And so, you know, he talked about affordable housing being the number one goal, absolutely.

But, you know, are those, you know, once you build the building as part of your CRA obligations are you providing supportive services, things like digital education. To make sure that these customers understand how to use a cellphone, how to use online banking. You know, are we providing other sorts of supportive services that, you know, enable them to, you know, to ultimately, you know, to like I said avail themselves to these services.

Do these, you know, affordable housing developments that we build have access to reliable broadband, right. It seems sort of table stakes for most of us, not true in most of these communities. That is a major impediment to migrating from a branch model to an online and digital only model. So again, I'd like to think about this in sort of an integrative and interconnected kind of way. And I think if we take the debate there, we'll probably do a lot better collectively in terms of reaching some solutions.

MR. BUSH: Thank you, Andy. I think next, we'll turn to Don.

MR. FELIX: Perfect. Not a plug for Disney, but I do have a four year old and a two year old. I have to tell you, that is one catchy soundtrack on that Moana.

MR. CALHOUN: Who knew The Rock could sing.

MR. FELIX: Exactly, I think about that all the time actually, more often than I would actually prefer in the car rides home. It's a pleasure to be here, thank you so much for choosing to participate in this conversation. It is becoming an increasingly important one as we try to solve for America's underbanked and unbanked and try to make sure there is access for all in a productive society.

For us at JPMorgan Chase, it always starts with what are we solving for and why. And so, I'm going to anchor my comments about action and agility and speed to market. And it really starts with what is the expectation of your bank, right. What is the expectation of a bank and what is that narrative?

And I often say, somewhat colloquially when you're not feeling well and you go see a dentist or a doctor, there's a measure of expectation in what's going to happen there and you know to go to that source. If you are running into some legal issue, right, you will do the same and you will go to a lawyer and again, a measure of expectation on what you're going to get and you going to a specific source.

When it comes to your finances, as you think about, you know, the course of your life and the life journey that you've been on. At different points in time, you've had different needs, you had different expectations. And most of us have chosen not to go to a specific source and have used a variety of sources. Our friend, our neighbor, our parents. And depending on who they are, they're going to more or less give you good or not so good advice and guidance.

And so, one of the things that we are very focused on is, you know, can we be that, you know, trusted, you know, source, partner. Can we be your wing person on your life's journey. Because we know that as you start out, that first job, that second job, maybe buying a home, maybe starting a family, your needs are going to change. They become more or less complex throughout the course of your life and that's, you know, a large part of what we want to solve.

And so, you know, for us it is about making the most of your money. So, helping you make the most of your money so you can make the most of your life. And a lot of times internally what we'll say it's not just about how much you make but it's about how much you keep.

And I'll also add this point is that when I speak about this, I'm also speaking about it from a personal perspective. All right, I'm a first generation American, I'm actually the first American in my family. All right, so I grew up in a low to moderate income community. I actually still live in that community. Now, of course, things do change, (inaudible) et cetera so there is a nice healthy mix. But I understand, you know, the plight that folks who are not included in the system, you know, what they're facing. And what keeps them out.

And so, what's great about, you know, our firm is that having 60 million customers in 26 states and growing, 5000 branches and growing that there's scale. And there's an opportunity to test into different measures of impact and then when we find a good opportunity to then amplify it.

I am proud to say that 26 percent of our branches today, our current existing branches are already in low to moderate income neighborhoods. And as we're growing and some of you have seen, we're growing in D.C., in Boston, in Philadelphia and other states throughout the country, 30 percent of those new branches are going to be in low to moderate income communities.

And so, for us there's a dual opportunity here. It is both and you're heard Jamie say this quite a few times. It is both a business imperative and a moral imperative. I like to start with the fact that it's a business imperative because sometimes people hear these things and they think, oh that's really wonderful, you're doing such social good. But guess what, if we don't make it a business imperative then it's not going to be sustainable. And if it's not sustainable then we can't keep that commitment to the customers that we're trying to serve. And it is for us about being the bank for all.

And when you think about low to moderate income consumers, there is a cost to being LMI. And when I speak again from a personal standpoint and I think about my mom who worked two jobs, right, and she would go literally from one job to the next and would only have the hour break in between. And would have to take care of all of life's daily needs in that hour as she commuted from one place to the next.

So, for us it's trying to figure out solutions where we can give you back in terms of value, just time. And so, when we talk about branches and we talk about solutions, it is we want to be there as a branch changing the expectation again in terms of when you need that guidance and you need someone to talk to, we'll be there for you.

But also, we want to let you know that there are digital solutions that can fit most of your needs. And then our opportunity is to then help educate, help inform. But a large part of that won't happen, especially again speaking from that perspective until we build trust.

So, a large part of what we're doing is really focused on building trust with those communities. So, when we open these branches and, you know, for some of you who I know, you know, live in D.C. it's just a wonderful example if you can go check it out. Yes, there's the big beautiful branch in McPherson Square but there's also the beautiful branch in Anacostia. Or you don't have to go that far, you can go to Harlem on 125th Street and there's the new community center specifically named that we've opened there. Where we've transformed and it's really the same model whether it's in D.C. existing or new branch in an existing type of format or Harlem new community center branch. It is about making the branch a reflection of the community.

So, as we are hiring into the new markets, we're making sure yes, we're bringing existing folks from our branch network to make sure that it's successful but we're also bringing in the local community. Because what you find in LMI communities, there's a language, there's a culture, there's just something specific that happens when you go about your day to day.

And it's super helpful, no matter where you go whether it is the dollar store or the convenient store or your Chase branch, there's someone who is going to reflect where you are and can speak to where you are.

Because that's the most important thing, right, is to meet customers where they are. So, whether it is a branch or digital that's our opportunity.

So, in being the bank for all, we are solving for and like for some of you this is not new at all. Helping people with their day to day management of their finances, building a measure of resiliency, helping with them with long term planning. And all anchored in, you know, these four pillars that again, not unfamiliar to most of you. Can we help you save more, can we help you spend more wisely, can we help you borrow more responsibly, right, and can we help you plan for the future.

All right, so all of our activities are anchored in that and it is about action. I'll be glad to speak to some of it in more detail but we are developing tools, some of you may have seen them. Autosave, credit journey. We're creating experiences, right, Chase chats, currency conversations, advancing Black pathways. And through those vehicles, we are bringing people into the branch in a different way and transforming what it means to pop into your branch. And what you get and what happens there and then what you take away.

Because most importantly, you cannot give folks tips without then giving them tools, without giving that next best action. Because that's the drop off. As soon as I ask you to do something, especially if you're not currently included in the financial system, that is the biggest hurdle that there could possibly be. And then, you know, the next best action that should happen doesn't.

And as I mentioned, we're creating community centers. You are all particularly familiar with the dollars of investment that we're fueling this opportunity. And then I would be remiss if I didn't say that for the 170,000 U.S. employees that we have, many of them in our operations centers, many of them working in our branches, many of them fall in a low to moderate income brackets as well.

And my sister worked at Chase branch for 25 years. Raised three boys and she immigrated here from the Caribbean. And so, we are also focused on financial health for our employees as well. So, a lot of times, they end up being our test case for what we then bring out into the public domain. So again, it is about action, it is about a measure of this agility and then it's about speed when we find a formula that we believe works to really move the needle.

MR. BUSH: Great, thank you, Don. I guess we'll finish with Doug.

MR. ELLIOTT: Okay, thank you. Now if you took the time to study my bio, you probably wonder why I'm up here. Because the great bulk of what I've done of late has been on financial regulation, a wide variety of things. Looked at it globally as well as locally but you probably won't see anything about consumer banking. But there actually is a method to the madness here.

Which is a bit over a decade ago, I founded and ran a think tank that looked at the U.S. federal governments lending programs. And there what that involved was a real thought process about where were their market failures and what were the appropriate types of intervention that the government might take or encourage to deal with that.

And since I haven't had a chance to do this in a while, this lets me promote my book, *Uncle Sam in Pinstripes*. Very nice picture of Uncle Sam in pinstripes, the traditional picture, evaluating U.S. federal credit programs. So, I'm going to take a little different angle than my colleagues which is really to try to look at this from sort of a pure policy angle.

And to start with what the policy questions are, I think there are three sort of overarching ones. One is we want to ensure that low and middle income customers have reasonable access to the core financial functions. At the same time, we run a capitalist system in which we like to allow banks and other financial players to make market driven decisions about how to manage themselves to the extent that's compatible with other goals. And we need to respond to the evolution of both technology and of the users of that technology.

So, how do you take these three things together? I was going to talk about the decline in branches et cetera but my colleagues have done a great job of that. I'll just say, I don't see any reason to expect this trend to reverse. Or for there to be a reversal of the growth of non-banks in financial services more generally.

So, then the question is, is what we've heard or seen ourselves, is that a problem and if it's a problem, will it just solve itself in which case we don’t need to worry about other interventions. And I have some thoughts but it's not that I have a lot of answers, it's more I have questions. Because I think our views on each of these questions will determine what we think is the right approach.

So, one of them is what will the adoption rate be for online banking by LMI populations. And as Andy has already alluded to, which services will work well in that form and which ones really do require a branch or a personal touch at least. There's a question of how fast non-banks, particularly fintechs, will gain market share. And I was talking with my colleagues who do actual consulting work, unlike me. And they pointed out the largest neo-bank in the country right now is Chime.

Chime has 6 million customers. That's up from 1 million something like 15 months ago. I pick on them in particular not just because they're the largest of the fast growing ones but they've also made a number of attempts to work particularly well for the LMI population. Their core account has no fees. They actually let you have free overdrafts up to $100 and they'll let you get an early deposit of your paycheck. So, if it normally comes in on Friday, you can get access to it on Wednesday. And I don’t know enough about the other neo-banks, I'm sorry if I'm unfairly pushing them here. But the point simply is, it is possible to do a lot online and when they do, they can grow quite rapidly.

Another question, of course, is as big tech penetrates finance, how broad will their entry be and how fast. And then something that's already been alluded to is how will changes in societal views about data affect the way this all works. Something I've been separately spending a lot of time on is looking at what I call data rights, data ownership, usage rights, privacy. And how likely new laws, regulation and changes in social morae's will change the ability to use all this new technology in finance.

And then there's also the question of whether interest rates will rise at some point. Because I don’t know a lot about consumer banking but I do know you make more on deposits generally when interest rates are higher. And deposits are a big reason for people to have branches.

So, all of these are questions I don't know the answers too but your views should help determine what you think the right approaches are. So, if you think there is a problem and it's not just going to go away, you then need to think about, well what is the core problem? Is it a cost problem, is it regulatory or legal constraints that make it difficult like all the concern about low dollar lending or is it just kind of biases of the incumbents? That there is a way to do this but they don’t see that there's a way to do it.

Now if you conclude there are market failures and once you've thought through what the causes are there are broadly speaking, five things the government could do. One is, you just let the market forces continue unimpeded. You view that as the lesser of the evils. A second thing, and I think it's very unlikely and unworkable, would be to require branches. At a minimum to say, if you've already got branches, you can't take them away or at least can't take them away from LMI areas. But I think there are a lot of issues with that, I doubt that will be a major thing.

You could have subsidization of branches or of provision to services to the LMI populations. Or fourth, a related thing, you could incentivize new ways of providing services to low and moderate income that are outside of banking. And finally, you could, at least in theory, introduce federal banking services for those people in the LMI populations that are being displaced.

And that could either be to provide a kind of demonstration effect which is often what federal programs do or it could be just full on activity. Such as in student loans, we've concluded long ago that that's actually not for the mass of the student population. It really doesn't work well as a private sector program and therefore you need the government to be heavily involved. And I've probably run over time so I'll just say I'd be happy to come back in the last part of this if we have a last part and talk a little bit about some international comparisons. Because I do think we can look abroad to get some sense of what works and what doesn’t.

MR. BUSH: Great. Well, thank you, I think that would be a great topic to come back to if we have time. We do want to have some time for questions and you've probably seen already how this works. You can ask a question electronically and it shows up here on my screen. So, it's a good way to ask a very provocative question. And apparently, I can approve it or reject it and I can friend you Facebook and I can follow you on Instagram in one swoop here.

MR. CALHOUN: And play Moana.

MR. BUSH: True, send you links to Disney films. So, we've got one so far and hoping you'll send in some more. And we also have a mic if you would prefer to just ask your question the old fashioned way. But maybe I'll take this first question and broaden it out a little bit. The question is, is payday lending inherently abusive and what alternatives can banks provide. And the way I guess I would broaden it out is to ask you to talk about payday lending, other types of installment credit and pick up on one point that Mike made about the potential for rent a charter arrangements.

So, banks indirectly participating in these types of products. And what I think we've seen at least to some degree, banks more directly participating in small dollar lending in ways that are different than the traditional banking products they've provided previously. So, if we could talk your perspectives on payday lending in particular but more broadly, you know, other types of installment credit and alternatives that people have and banks rules. So, maybe who wants to start?

MR. NAVARRETE: I think you have to give Mike a chance but I'm happy to weigh in on it.

MR. BUSH: Yeah, go for it.

MR. CALHOUN: Let me start with just describing the landscape and the data. And this is, I think and I have gone through this many times. This illusion in a lot of ways that we can easily substitute a responsible product for the payday product. And let me explain why after I have worked on this for nearly two decades, why that is fundamentally a challenge.

So, the first thing is the typical payday borrower and this is fed study and others is a thick bio borrower with a credit score in the low 500's, around 520. We have done exhaustive searches and research using a survey of consumer finances. So, the real challenge is for most of the payday loans and I'll get to the distinction between loans and borrowers. The borrowers have an income problem not a liquidity or volatility problem.

And unfortunately, how the system works is much like the overdraft. A handful of high frequency users are the core of the (inaudible). So, the CPB did research, for example, just looked at one year snapshot. And about 75 percent of the revenues came from borrowers with 10 or more loans in a 12 month period with no break between them.

Let me just give you -- and so their rule was actually a pretty modest rule. It said, you can do six payday loans a year the same way the payday lenders have already done, you just can't put them right behind each other, you have to have 30 days between them. If you do more than that, you should check to see if the borrower can repay the loan through some sort of automated underwriting.

But just two other examples of the challenge here and the nature of the market. Washington State adopted reform that we supported a number of years ago where they said you can do these loans at high interest rate, you know, 300 percent. You can do eight loans per borrower per year. That reduced the volume of payday loans in the state by over 75 percent.

Essentially, it's a bounty hunting business where the borrower who takes out the advertised one or two loan in a once in a blue moon is a lost leader. It is all to find what in the trade they call 26ers, people who renew the loan every two weeks for a year at a time. And it's very hard to displaced that with a better product because they have, you know, they sell the quick yes. They have store fronts throughout communities and we tried it. So, the banks got into effectively bank payday lending. The direct deposit advance and the volume was about $6 billion a year.

Two things. It had no impact on the storefront business, it was additional credit. Because these are folks desperate, you know, if you were living on $25,000 a month many of those folks are paying over 50 percent of gross income on rent. It's hard to get, and you're looking for anyway to get through the next step. So, it made virtually no dent.

The other thing was for the bank payday product, the average number of loans per borrower per year was just under 20 loans per borrower. These are just revolving, they borrowed once and borrowed over and over again, this is not new credit. The real -- that's the challenge. There are alternatives, they're not great, that are out there. This is not a credit desert. There are about 30 million pawn shop customers a year, two and a half times the size of the payday industry. Installment loans by banks and others provide far more credit because they actually don't provide that much credit. They count each of those renewals as a new loan when they do their statistics.

But the average payday store, when you look at their business plan has about $50,000 of loan money. And they try and do a million dollars a year in loans and how do you do that? Well, there are 12 day loans is the average, you lend it over 25 times and you're not putting that much money on the street but that's how you get a million dollars of loan volume.

So, that is the challenge here. We support, our main principle is, we want people in the banks, we want banks to offer the credit. We want streamlined ability to repay on those loans and this is where we strongly support the fintech, the cash flow analysis that the bank has the data for. So, let me stop there, there are others.

MR. BUSH: Yeah, maybe we should ask Andy, Don whether, you know, how the banks can help solve this challenge.

MR. NAVARRETE: Absolutely. And, you know, comptroller Otting again sort of talked about the small dollar credit in his conversation this morning. You know, this is probably one of the most challenging issues for the financial services industry, not just banking, to try to solve. Nobody has really hit upon, I think, the exact formula for how a product like this ought to be structure, how it ought to be priced, how it ought to be delivered and then what limitations should be put on in it in terms of recurrence.

I want to applaud Mike. I think Mike, you've been one of the strongest voices on this and a great partner in terms of trying to reach a reasonable solution. Because to the extent that we are as a banking industry throwing up our hands and saying somewhere between the economics of the product and the reputation risk associated with it, we don’t want to play in this space. That's not a good outcome for consumers.

You know, the fact is payday lenders, car title loan companies, all of that sort of distant cousins of these fringe financial services have been a problem for a very long time. They were a problem when they were store fronts clustered around military bases. They're an even bigger problem now that they can be done at scale through a variety of digital channels. So, I think the imperative to try to solve for this is absolutely something that we need to be focused on.

There are alternative products. We offered a security credit card, for example, that I think, you know, Mike we've talked quite a bit about this. And it tends to be a really good source of that short term liquidity, that access to the payment system that I think is so critical to helping the LMI populations participate in the mainstream of financial services. But to the extent, you know, that there are, you know, other needs, income challenges not just volatility, you know, those are bigger issues that I think collectively is in industry through our programs we need to help solve.

And by the way, that can include everything from not only the kinds of products you offer but what you pay your associates. And how, you know, we're investing in work force development to help people, you know, build wealth over time.

MR. FELIX: I'll just add and just adding to the spectrum on the conversation and it's taking it from a slightly different angle. And there is no silver bullet. So, it's not to discount anything obviously that's already been shared in terms of the struggles that people have paycheck to paycheck. And when I shared a little bit about my personal story, it's then to just ground in a specific visual. And I had already mentioned, it's not about always how much you make but how much you keep.

There are a number of people in our society who, you know, you can call them essential workers, you can call them everyday people. They're going to make a set amount of money. And that's why I invoked, you know, my mom as a nurse's aide or my sister who worked at a bank branch. They made a certain amount of money and there wasn't going to be anymore, right. So, they had to figure out for themselves.

So, for us what we're trying to do, again, no silver bullet, there's many ways to attack the problem. But what we were trying to do is just help change the conversation which will then hopefully change certain behaviors and then will create new habits. And I could speak to like one tool that we have which, you know, we're seeing phenomenal results with and not because people are enrolling but we're watching the behavior change.

All right, and so it's this autosave tool. So, you have to be a Chase checking and savings customer. It is not highly marketed although we do have this one commercial out now. But when we launched it at the beginning of the year, if you're a Chase mobile app user, you have these white tiles that show your mortgage or your auto loan or your checking or savings. And then right below that, not big white tile which I find interesting, was now blue and so it could get lost. But we've already had almost a million people click on that tile.

And whether it is payday or periodic as you said it and recently, we just updated it so now it is daily savings. And you can literally save as little as a dollar a day. We've had a million people jump in. Because what we realized with folks in LMI communities and it's not even just LMI by the way, the biggest hurdle is just getting started. And then once you get started, right, because some of us save so we can spend, right. It is, you know, can I maintain the habit. And then once I create a habit can I create a new floor for myself.

And so, I use my family example because they did it without autosave. And when I think about the utility and the opportunity and what we're seeing with autosave is that we're creating that habit where people are saying, you know what, maybe I can make ends meet. Maybe that dollar a day, right, in savings, I don’t miss it. I don't miss a dollar a day but guess what, that's $30 at the end of the month. And for some of us, that sounds like small potatoes but I can tell you when you are traveling between two jobs and you're running late and maybe you have to now take an Uber which was not available to my mom, right. You know, that could be $12, $15 right there and now your budget is thrown off whack. So, sometimes simple tools like this can also help address the problem.

MR. BUSH: Great, thank you. There is one question here that maybe ties in a little bit which is whether you have any point of view about whether real time payments will take any pressure off of some of the demand for certain types of these products. Whether it's overdrafts, payday loans, other types of credit. You know, would it take a little pressure off, medium pressure, no pressure.

MR. CALEM: I would just like to add to the last question. I don't have an answer for this one.

MR. BUSH: Yeah sure.

MR. CALEM: But I do think that I agree with everything that was said. I think that studies continue to find that financial education and financial sophistication are a big part of the problem. Not the whole problem but they definitely contribute to the cycle of debt. And to the extent that, you know, you have these new tools that are being explored to help people get out of certain habits or understand the impacts of their financial decisions, I think that will go a long way.

As to whether this kind of lending is inherently predatory, you know, that depends on, you know, certainly a good part of it would be to the extent that there's deception or push marketing products. If you broadly, more broadly define it as not trying to help the consumer better manage their financial situation and instead get them caught up permanently, then I think more of it is predatory.

MR. BUSH: Okay, yeah.

MR. CALHOUN: Real time will help, overdraft is a longer topic. I mean, banks operate today a payday loan program called overdraft, it's extraordinarily expensive. All the data show that again, it is a tiny percentage, probably less than five of your customers are generating over 90 percent of your overdrafts. And those are people who are using it.

Some is they're sort of making the bet on real time payment and that will affect it a little of will this check clear both as a deposit or as a debit, what the timing of that will be. But the evidence shows a lot of people use that just like a payday loan. And again, they're taking out, you asked, well how do you get to $1100. That's three overdrafts a month, that's pretty easy to happen. But if you put that in an LMI income situation, that's a devastating hit to their chance of advancing or hitting some level of sustainability.

I want to commend several of the banks that have made steps to try and address and reduce the repeat high frequency overdraft. And I think that's a useful product. We start with a basic principle that used to be taken for granted is that you don’t help someone with a loan if they don't have a reasonable ability to repay the loan. And instead, you're relying on direct access to their bank account or some other right of set off. So, you get paid whether or not it's a successful outcome for them.

MR. BUSH: Great, well thank you. Apparently, when we hit ten questions, we automatically extend by an hour the panel. No, that won't happen. We do have a lot of questions. I'll just end with one sort of off the wall one. Does it matter what branches are called? You know, the store trend probably crested but, you know, non-digital experience locations.

MR. NAVARRETE: Yeah, so yeah. It's interesting, our cafes are not actually branches you can do financial services. But for the regulatory geeks in the house, I can explain that one offline. But nevertheless look, I think it matters from this perspective which is, you know, innovation takes in a variety of different forms. And if your customers are voting with their feet then it probably behooves you to sort of rethink a little bit of how you do the servicing models.

You know, the traditional branch and now I'm going to stereotype the banking industry after decrying earlier that stereotyping of us is not innovative. But, you know, the wood paneling and the, you know, the three inch bullet proof glass and the rope lines, you know, that have fewer and fewer people standing in them tend not to be particularly inviting environments. But one of the interesting things about branches is that they tend to occupy some really, really appealing real estate.

The banks are well financed and what's interesting is we talk about banking deserts but there's places in many communities who actually don't want bank branches at all. And there was an interesting, you know, when we were sort of looking at the Anacostia market as well, just an interesting dynamic of a bank branch going in and replacing a beloved restaurant. And that was not seen as a positive.

And so, what you think about is like okay, if we have this real estate, if we have these how do we actually translate that into something that is much, much more beneficial to customers. And so, I think that the café model was born of that. You have ambassadors, you can talk to the individuals about different kinds of products and services but they are not there to sell. They are not there to, you know, to pressure customers, they're there to utilize or help community groups utilize free space. They're there to provide money coaching in a variety of other different kinds of services. This is the way we think we'll reach customers in the future and I'm getting the times up sign. But nevertheless, something I think we've been very, very pleased with the early results on.

MR. FELIX: And I'll be quick, it's three parts, right? I mean, we spend a lot of time do thinking about what do you call these things but it's about format, it's about people and it's about making sure you're providing the right products and services. So, we will vary the format. I mentioned the community center in Harlem and where you have a garage door as the store front you can open it up, invite the community in.

If people understand, right, if consumers understand what they will get, and this goes back to my opening comment, what they will receive there it almost doesn't matter what you call it. They just need to know that when they're looking for help that they can get it. Hopefully it's an inviting format. The people who are there are going to be well informed, will speak their language and that the products and services will help meet their needs wherever they are.

So, we were talking about overdraft. Like I could go on and on about like a secure banking where there is no overdraft and hopefully that's one of the products that you were talking about, Mike, that banks are starting to offer. So, it's really, make the format inviting, staff it with the right people and offer the right products and services. It has to although be about the customer. Once people start to feel like we are offering solutions that are catered and tailored to them and not to us, right, that's how we will make sure that we all can succeed and, I think, achieve what we're talking about and it won't matter that there's not a branch on my corner. It's that I know that when I need a friend, I know where to go to.

MR. BUSH: Great. On that note, we'll close out the panel and join me in thanking the panelists.

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