

FEDERAL RESERVE BANK OF NEW YORK

May 18, 1987

INTERAGENCY POLICY STATEMENT REGARDING BASIC FINANCIAL SERVICES

*To All State Member Banks and Bank Holding Companies
in the Second Federal Reserve District:*

Printed below is the text of a joint policy statement issued by the five Federal financial institution regulatory agencies (Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, and Comptroller of the Currency) and the three associations of State supervisors. The statement encourages efforts by trade associations and individual depository institutions to offer "basic financial services" for low- and moderate-income consumers.

Also included is a copy of the letter sent by the Federal Financial Institutions Examination Council to several trade associations last month announcing the adoption of that policy statement.

Questions regarding the policy statement may be directed, at this Bank, to our Compliance Examinations Department (Tel. No. 212-720-5921). Additional copies of the policy statement will be furnished upon request directed to the Circulars Division (Tel. No. 212-720-5215 or 5216).

E. GERALD CORRIGAN,
President.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Interagency Policy Statement on Basic Financial Services

AGENCY: Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, and Office of the Comptroller of the Currency.

ACTION: Issuance of a joint policy.

SUMMARY: The Federal Financial Institutions Examination Council in October 1986 approved a policy statement encouraging efforts of trade associations and individual depository

institutions toward the offering of basic financial services that would be accessible to low- and moderate-income consumers. It was prompted by concerns that have been raised about the potential impact of financial industry changes on the continued availability of basic services. The Council recommended to the Federal financial institution regulatory agencies that they jointly adopt the policy statement. The Council's State Liaison Committee also recommended that the policy statement be joined in by the Conference of State Bank Supervisors, National Association of State Credit Union Supervisors, and National Association of State Savings and Loan Supervisors. The five Federal agencies

and the three associations of State supervisors have approved the statement and are joining together in its issuance. The policy statement identifies in broad terms the basic financial needs that should be considered: A safe place to keep money, a way to get cash, and a way to make third-party payments. The statement also states that any programs offered should be consistent with safe and sound business practices.

EFFECTIVE DATE: March 3, 1987.

FOR FURTHER INFORMATION CONTACT: Ellen Maland, Federal Reserve Board (202) 452-3687; Louise Kotoshirodo, Federal Deposit Insurance Corporation (202) 898-3545; Peggy Spohn, Federal Home Loan Bank Board (202) 377-6974; Michael Riley, National Credit Union

Association (202) 357-1085; and Roland G. Ullrich, Office of the Comptroller of the Currency (202) 287-4265.

SUPPLEMENTARY INFORMATION:

Joint Policy Statement on Basic Financial Services

The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, Office of the Comptroller of the Currency, Conference of State Bank Supervisors, National Association of State Credit Union Supervisors, and National Association of State Savings and Loan Supervisors are issuing this joint policy statement to encourage the efforts of trade associations and individual depository institutions regarding the offering of "basic financial services."¹

The economic environment in which financial institutions operate has changed over the past few years, due in part to increased competition from outside the traditional depository institution structure, increased cost of funds following deregulation of interest rates, and interest rate volatility. As a consequence, many institutions have had to adopt new strategies to market their services, generate income, manage risk, and reduce costs. Some institutions have begun to explicitly price their products, consolidate or eliminate services they believe to be unprofitable, and close branch offices. In many instances, institutions have increased service charges, imposed new fees, and raised minimum balance requirements.

While such adaptation may be a necessary response to competitive markets, considerable concern has developed about the potential impact of these changes in effectively denying or reducing convenient access of many individuals to the payments system and to safe depositories for small savings. Because credit availability is often

dependent on an account relationship with a financial institution, access to credit for low-income or young consumers may also be adversely affected.

While a significant number of consumers have never had a deposit account, some research studies reflect declines in account ownership that may be cause for concern. For example, between 1977 and 1983 the proportion of families headed by a younger person having checking accounts decreased, as did the number of families from the lowest income group, regardless of age. The proportion of young families having either a savings or a checking account also declined. While the cause of these declines is not always clear, the surveys do suggest that a significant number of individuals or families do not have a deposit relationship of any kind.

Legislation dealing with basic financial services has been introduced at both the federal and state level as a result of these concerns. The industry has also responded. Many financial institutions have independently undertaken to develop and implement new measures to meet minimum consumer needs. They are offering basic services, such as low-cost transaction and savings accounts with low or no minimum balances, accounts for consumers who use a limited number of checks or drafts, and other accounts on which minimal charges are made for account maintenance. Institutions that have for years offered such services to particular groups of customers are now advertising their availability more widely. Other institutions are exploring and finding ways to maintain a physical presence in low- and moderate-income neighborhoods even while reducing the expense normally associated with full branch facilities. Trade groups too have joined in these efforts to encourage the offering of such services at affordable prices. The American Bankers Association and Consumer Bankers Association, for example, have called upon their members to address the

continuing interest in basic banking services.

The member agencies of the Federal Financial Institutions Examination Council and the associations of state supervisors wish to encourage such efforts by trade associations and individual depository institutions that promote the offering of basic financial services, consistent with safe and sound business practices. While the specific type of services will, of course, vary because of differences in local needs and in the characteristics of individual institutions, we encourage efforts to meet certain minimum needs of all consumers, in particular:

- The need for a safe and accessible place to keep money;
- The need for a way to obtain cash (including, for example, the cashing of government checks);
- The need for a way to make third party payments.

We believe that industry trade associations have a key role to play in this effort, and are in a position to encourage a constructive response without the rigidities of legislation or regulation. We realize that some associations have such programs already underway.

These programs could usefully:

1. Encourage members to offer and appropriately publicize low-cost basic financial services such as those listed above.
2. Survey the current availability of such services among member institutions.
3. Make available to members not providing such services material reflecting the successful experiences of other organizations.

March 3, 1987.

Robert J. Lawrence,

Executive Secretary, Federal Financial Institutions Examination Council.

[FR Doc. 87-4704 Filed 3-5-87; 8:45 am]

BILLING CODE 0210-01-M

¹ The Comptroller of the Currency previously issued a banking circular on this subject to all national banks in August 1985.

Federal Financial Institutions Examination Council



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We want to bring to your attention the joint action of our agencies and associations in adopting the enclosed policy statement on basic financial services. As you know, concerns have been raised about the potential impact of financial industry changes on the continued access of all individuals to the payments mechanism, a safe depository for small savings, and a way to get cash. We believe that trade associations have an important role to play in encouraging a constructive response to these concerns, without the rigidities of legislation or regulation. Trade associations can assist by encouraging the offering of low cost basic financial services, surveying the current availability of such services, and providing their members with material reflecting successful basic financial service offerings.

We are asking that you join in this effort. Since we would expect the issue of basic financial services to receive continuing interest, it would be very useful to know of the actions taken to date, or in response to the policy statement, to address the concerns being expressed. If you wish to do so you might provide a report on your efforts by the end of June, 1987 to Robert J. Lawrence, Executive Secretary, Federal Financial Institutions Examination Council, 1776 G Street, NW, Suite 701, Washington, DC 20006.

Paul A. Volcker/Chairman
Federal Reserve Board

L. William Seidman/Chairman
Federal Deposit Insurance Corporation

Edwin J. Gray/Chairman
Federal Home Loan Bank Board

Roger V. Jepsen/Chairman
National Credit Union Administration

Robert L. Clarke
Comptroller of the Currency

Sidney A. Bailey
Chairman/State Liaison Committee

Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, Office of the Comptroller of the Currency