

Date of Hearing: April 8, 2013

ASSEMBLY COMMITTEE ON BANKING AND FINANCE
Roger Dickinson, Chair
AB 385 (Dickinson) – As Amended: April 2, 2013

SUBJECT: Bank on California program.

SUMMARY: Establishes the Bank on California Program in the Department of Business Oversight (DBO). Specifically, this bill:

- 1) Provides that the Program shall provide support and coordination to regional programs located in communities throughout California.
- 2) Specifies that regional programs shall be voluntary public-private initiatives led by local government, in partnership with financial institutions and community based organizations.
- 3) Requires participating financial institutions to do all of the following:
 - a) Offer a low-or no-cost checking account with no monthly minimum balance requirement;
 - b) Adapt internal systems to allow a customer with a negative banking history or Chex Systems record to open an account;
 - c) Accept Consular identity cards and other alternative forms of identification as primary identification;
 - d) Waive one set of nonsufficient funds or overdraft fees per program participant per year;
 - e) Report data to the commissioner on a quarterly basis on key metrics including, but not limited to, the number of accounts opened and closed, the ZIP Codes of program accountholders, and the average and median monthly balances of program accounts.
 - f) Train branch staff on program policies and procedures; and,
 - g) Participate in outreach activities to promote the program to low-income communities.
- 4) Requires the Commissioner in coordination with local programs, commencing in 2014, to do the following:
 - a) Request and collect the following data from participating financial institutions on a quarterly basis, sharing this data with local programs as necessary:
 - i) The total number of program accounts opened.
 - ii) The total number of previously opened program accounts closed.

- iii) The ZIP Codes of program accountholders.
- iv) The median and average account balances of all open program accounts.
- b) Provide the chairs of both the Senate Committee on Financial Institutions and the Assembly Banking and Finance Committee with a brief annual summary on the activities of the program.
 - i) Allows the Commissioner to request information from local programs in order to complete the report which shall include, but is not limited to, the following:
 - (1) Data on program account opening, closing, account balance, and customer ZIP Codes presented by location and quarter, as well as cumulatively.
 - (2) Adherence by participating financial institutions to negotiated account features.
 - (3) Financial institution activities in support of local programs, including branch trainings, data reporting, participation in meetings and activities, and other program outcomes reported by local programs.
 - c) Pursue voluntary agreements with financial institutions with a presence through California to offer program-style products.
 - d) Identify geographic localities with a high density of unbanked individuals and households and no existing program.
 - e) Provide support to local programs by:
 - i) Establishing guidelines and best practices for programs.
 - ii) Providing information and guidance on regulatory and other banking issues.
 - iii) Intervening on behalf of local programs if a participating financial institution is not adhering to the program commitments.
 - iv) Providing assistance to disseminate program materials and other information.
 - v) Hosting one convening per year for all programs.
- 5) Defines "commissioner" as the Commissioner of Business Oversight.
- 6) Defines "department" as the Department of Business Oversight.
- 7) Defines "program" as the Bank on California Program.
- 8) Defines "unbanked" as any individual or household that lacks any kind of deposit account at an insured depository institution.

9) Making findings and declarations.

EXISTING LAW

- 1) Currently has no statutory requirements regarding the Bank on California Program. The Bank on California Program was launched as an initiative by Governor Schwarzenegger in 2008.
- 2) Implements the Governor's Reorganization Plan, which combines as of July 1, 2013, the Department of Corporations (DOC) and the Department of Financial Institutions (DFI) to create the DBO.
- 3) Gives DFI the responsibility to oversee the operations of state-licensed financial institutions, including banks, credit unions, industrial banks, savings associations, trust companies, foreign banking organizations, business and industrial development corporations, money transmitters, issuers of payment instruments and travelers checks, and premium finance companies.

FISCAL EFFECT: unknown.

COMMENTS:

BANK ON CALIFORNIA (Program):

The Bank On movement started in San Francisco in 2006 with the launch of Bank on San Francisco. In 2008, the state of California launched Bank On California from the office of former Governor Arnold Schwarzenegger. There are currently eleven "Bank On" programs launched in California. Most Bank On programs in California are led by the municipal government or the local United Way.

Bank on's are established in: Bank on San Francisco, Bank on Los Angeles, Bank on Oakland, Bank on San Jose, Bank on Fresno, Bank on Sacramento (Sacramento City and County, Yolo County, Placer County, El Dorado County and Amador County), Bank on Orange County, Bank on Stanislaus, Bank on American Canyon, Bank On Napa Valley, Bank On Central Coast (Monterey, Salinas, Santa Cruz, Watsonville) is under implementation.

Since Bank on California launched in 2008 without statutory oversight, the program has been housed in several state departments including the Governor's Office of Planning and Research, the State and Consumer Services Agency, and recently found a home in DFI. Due to the program being pushed from department to department in the span of 4 years, it is difficult to determine the success of the program and whether it appropriately serves the needs of the local Bank On Programs. The program has thrived predominantly due to the local level programs and the large-scale recognition of Bank on San Francisco. AB 385 is needed to create long-term stability and guidance to the Bank On programs. Due to the shuffling, concrete data on the success of the statewide program and the local programs is hard to determine because some departments did not collect any data or keep track.

Bank on California programs at the local level are largely funded by non-profits and coalition organizations.

Bank on California involves a voluntary partnership between certain financial institutions and cities, is intended to increase the supply of starter account products offered by participating financial institutions, raise awareness among unbanked individuals about the benefits of account ownership, and make quality money management education more easily available to un- and underbanked individuals.

As stated in AB 385's finding and declarations it is important to note:

- The goal of the Bank on California Program is to financially empower lower income consumers by making it easier and more affordable for them to deposit their paychecks, pay their bills, and start saving.
- The Bank on California Program increases the supply of starter account products that work for the low-income, unbanked Californians by developing baseline product criteria that must be offered by all participating financial institutions.
- The Bank on California Program raises awareness amongst unbanked consumers about the benefits of account ownership and spurs Californians to open accounts.
- The Bank on California Program makes quality money management education more easily available to low-income Californians and raises statewide awareness of the unbanked problem and potential solutions.
- An estimated 7.8 % of Californians are unbanked and an additional 18% are considered underbanked.
- The average unbanked Californian pays one thousand dollars (\$1,000) to cash a year's worth of paychecks.
- Californians with bank accounts are more likely to save, have higher credit scores, and get better priced car and home loans.

Data from the 2011 FDIC "National Survey of Unbanked and Underbanked Households"

- 8.2 % of US households are unbanked. This represents 1 in 12 households in the nation, or nearly 10 million in total.
- 20.1 % of US households are underbanked. This represents one in five households, or 24 million households.
- An estimated 7.8% of Californians are unbanked and an additional 18% are considered underbanked.

- 18.2% of African-American California households and 16.7% of Hispanic California households are unbanked, and an additional 33% of African-Americans and 24% of Hispanic households are underbanked.

Report from the Federal Reserve Bank of Saint Louis, 2010

Unbanked consumers spend approximately 2.5 to 3% of a government benefits check and between 4% and 5% of payroll checks just to convert these checks into cash. Additional dollars are spent to purchase money orders to pay routine monthly expenses. When you consider the cost for cashing a bi-weekly payroll check and buying about six money orders each month, a household with a net income of \$20,000 may pay as much as \$1,200 annually for alternative service fees—substantially more than the expense of a monthly checking account fee.

NEED FOR THE BILL:

Under AB 385, the Bank on California Program would be established within the DBO. Currently the program is voluntarily housed at DFI. The bill does not take the responsibility away from DFI but instead acknowledges after July 1, 2013, DOC and DFI will be combined to create the new DBO. AB 385 gives the program a much needed permanent home at the state level and establishes the important program in statute indefinitely. This will provide local programs more direction and support and will provide the DBO the tools to collect and retain information to better evaluate the success and needs of the programs.

AB 385 sets up minimal requirements of what a local Bank On should strive for, as well as places a greater responsibility on the DBO to stay in engaged and involved in the program. While the bill does create a foundation, the program as a whole remains voluntary at every level. A local government can determine whether or not to create a local bank on and a financial institution can decide whether or not to participate. As noted, the requirements in the bill are the minimal requirements that all participating financial institutions agree to when voluntarily deciding to participate in the Bank On program. AB 385 does not go above and beyond requiring anything what the local governments asked their financial institutions to agree to. If a financial institution is not able to provide those services to the unbanked then the financial institution does not partner/participate with that Bank On program.

The measure requires the DBO to submit a report on an annual basis to specified committees of the legislature to ensure the program is successful and meets the needs of the Bank on programs at the local level. AB 385 clarifies the state's role in ensuring the success of the Bank On program. The information required to be collected is information participating local governments and financial institutions are asked to collect when creating a Bank On.

AB 385 gets to the detrimental issue in California, the obscene amount of Californians who are financially illiterate and unbanked or underbanked. The goal of AB 385 is to encourage voluntary collaborative partnerships that work together to lower the number of unbanked and to get more Californians to enter the financial mainstream. With a bank account, unbanked Californians can achieve financial security, start to save for the future, and establish a credit history. The unbanked, or those without an account with a financial institution, constitute approximately 22 million, or 20% of Americans.

The Bank on California Program should be a role model to other states and stand as the umbrella to local city and county Bank On Programs. AB 385 raises the bar and gives the Bank on California Program the star status that it deserves.

REGISTERED SUPPORT / OPPOSITION:

Support

Bank on San Jose (BoSJ)
Bill Lockyer, California State Treasurer
California Credit Union League (CCUL)
California Independent Bankers (CIB)
The City and County of San Francisco
United Way of Fresno County
United Way of Stanislaus County
United Ways of California (UWCA)

Opposition

None on file.

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