

Date of Hearing: April 11, 2011

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Mike Eng, Chair

AB 38 (Bradford) – As Amended: March 21, 2011

SUBJECT: Banking development districts.

SUMMARY: Establishes a Banking Development District (BDD) Program within the Department of Financial Institutions (DFI), which would encourage the establishment of bank or credit union branches and/or new bank services in specially designated geographic locations where there is a need for banking services. Specifically, this bill:

- 1) Makes findings and declarations regarding the status of unbanked and underbanked consumers, as well as, the need for banking services in underserved communities.
- 2) Provides that financial institutions, as defined, may seek to participate in the BDD Program if they do either of the following:
  - a) Open a new outlet in a lower income, underserved area, or,
  - b) Develop and market a new product line or group of services in an existing outlet in an underserved community.
- 3) Defines "underserved community" as a remote location or impoverished area that lacks banking services commensurate with the services provided to higher income areas with a population of similar size.
- 4) Defines "Banking Development District" as a specifically designated geographic location where there is a demonstrated need for banking services that has been designated as such by DFI.
- 5) Provides that DFI provide information on the BDD Program to the Treasurer. The Treasurer may utilize the BDD Program when promoting the Treasurer's Time Deposit Program.
- 6) Allows for DFI and local agencies to compile list of underserved communities or regions that lack a concentration of banks and services in order to provide banks with a clear demonstration of those areas that are in most need.
- 7) Specifies that the application for participation in the BDD Program shall include the following components:
  - a) Clearly defined current and anticipated bank product and service needs of the community;
  - b) Demonstrate that those needs are not currently being met by existing institutions; and,
  - c) Demonstrate that the bank applying for acceptance can meet the needs of the community as identified.

- 8) Requires DFI to set forth selection criteria to evaluate a bank's application. The criteria shall meet the following:
  - a) Result in needed and responsible bank products and marketing of those products to local consumers;
  - b) Be flexible and allow for differences in local markets; and,
  - c) Encourage viable business practices.
- 9) Provides that DFI shall evaluate and approve applications and designate BDDs to the extent that participating banks can accomplish the following:
  - a) Help unbanked Californians open starter accounts that include no monthly balance requirements, low cost overdraft protection plans and second chance accounts;
  - b) Build the financial literacy of low income customers;
  - c) Provide effective ways for low income customers to build savings and a credit record;
  - d) Provide competitively priced mortgage and auto loans;
  - e) Offer microloans and micro lending products and services;
  - f) Provide products to assist small businesses; and,
  - g) Provide specialized marketing, and specialized training for staff.
- 10) Requires DFI to develop and provide a range of incentives to encourage banks to participate in the BDD Program that shall be valuable to banks and significant enough to encourage banks to locate in underserved communities.
- 11) Provides that a bank that is located in a BDD and that has been designated as such, shall be eligible for a range of incentives including, but not limited, to:
  - a) Access to priority of deposits of public funds and access market-rate public funds as deemed appropriate and approved by the Treasurer; and,
  - b) Incentives offered by local agencies as deemed appropriate.
- 12) Allows DFI to work with local agencies and economic development officials to develop additional local incentives for participating banks including, but not limited to, the following:
  - a) Local agency deposits;
  - b) Assistance in locating suitable commercial real estate space for branches;

- c) Local tax incentives; and,
- d) Workforce development.

13) Requires DFI to adopt rules and regulations for the establishment of the program, as well as, post online a performance review process.

EXISTING LAW provides for the regulation of state banks and credit unions by DFI.

FISCAL EFFECT: Unknown

COMMENTS: In 1998, the state of New York, under Governor George Pataki, created the first BDD program in the nation. BDDs were designed to provide communities with a resource to assist in providing economic development opportunities and incentives to financial institutions to locate in underserved communities. According to a 2006 Wall Street Journal Article, Citibank executives acknowledged that without the below-market-rate deposits from the state and city, the bank would continue to lose more than \$350,00 a year operating a three story branch in a neighborhood where 38% of the residents live below the poverty line. The goal of AB 38 is to spur increased and enhanced banking services in under-served communities that will spur greater financial inclusion. The desired outcome is that more Californians will enter the financial mainstream and build savings and wealth through participating banks' offerings and marketing of appropriate transactional, loan, and credit products that can lead to long-term wealth building opportunities.

In May, 2010 a report was released titled, "10 Years in: A review of the Banking Development District Program." The report concluded that overall, the BDD Program plays an important role in reducing the number of unbanked and underbanked populations in New York State. Despite its successes, the BDD Program could be dramatically improved by mandating that BDD branches provide financial education, encouraging the development of more affordable products and services and encouraging more collaboration between the BDD branches and local community groups.

In the modern financial arena consumers are faced with a confusing myriad of choices and options. This confusion is amplified by the financial illiteracy of most consumers, and what has been a traditional lack of outreach by financial institutions to certain communities. Recently, the untapped market of those without a banking relationship has become an intriguing opportunity for those offering financial services. However, as many studies have shown, the unbanked and underbanked often do not feel comfortable dealing with financial institutions that are not located in their neighborhoods. In October of 2009, the Los Angeles City Council approved a motion to establish a local BDD program by requiring the City Attorney and City Treasurer to draft an ordinance establishing the program. Additionally, the City Treasurer must set up a task force with department heads and council members to determine what modifications may be needed to adapt the New York BDD model program to Los Angeles.

Californians, now more than ever, may have more of a distrust towards financial institutions due to the mortgage meltdown. Recent statistics show, nationally, as many as 28 million people are unbanked, One in five low-income Californians does not have a checking account and nearly half of Californians do not have a savings account. This measure attempts to incentivize financial institutions to bank in less desirable areas and get those unbanked, banked. "Banked" consumers leads to more financially literate consumers.

On January 24, 2008, Former Governor Schwarzenegger announced an effort to assist unbanked and underbanked Californians. This program, called Bank on California, is built off of a pilot project in the City of San Francisco, known as Bank on San Francisco. The idea behind the Bank on California program is to increase the availability of starter checking accounts through partnerships with financial institutions. Additionally, this program creates partnerships between local officials, banks and community groups to raise awareness on the importance and benefit of entering the financial mainstream. Currently, only 7 cities in California participate: Fresno, Los Angeles, Oakland, Sacramento, Santa Ana, San Francisco, and San Jose.

#### PREVIOUS LEGISLATION:

AB 2581 (Bradford), 2009-2010 Legislative Session. Would have established a BDD program administered by DFI to encourage the establishment of banking branches in and the provision of additional product lines or services to, specified underserved areas. Vetoed by Governor.

AB 1502 (Lieu), 2007-2008 Legislative Session: Would have established a BDD program, jointly administered by DFI and the STO. Passed the Assembly, but was gutted and amended into a financial literacy education bill.

#### Questions to Consider:

- 1) Does DFI have the expertise and resources to be able to accomplish the goals of this measure?
- 2) Should DFI, who regulates state chartered financial institutions, have the authority provided in this measure to provide incentives to those they regulate?
- 3) What incentives could DFI offer to financial institutions?

#### REGISTERED SUPPORT / OPPOSITION:

##### Support

New America Foundation – Sponsor  
California Credit Union League  
Opportunity Fund

##### Opposition

None on file.

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