

Date of Hearing: April 13, 2015

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Matthew Dababneh, Chair

AB 1292 (Dababneh) – As Introduced February 27, 2015

SUBJECT: Bank on California program

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

- 1) Requires DBO, starting in 2016 and no later than August 30 of each year, to provide the chairpersons of the Senate Committee on Banking and Financial Institutions and the Assembly Committee on Banking and Finance with a brief annual summary on the activities of the program.
- 2) Declares Bank on California as a voluntary collaborative initiative that assists Californians in opening a bank or credit union account and saving for the future.

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) Gives DBO 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:

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

Currently, only four local Bank On programs remain active which include: Bank on Sacramento, Bank on Oakland, Bank on Los Angeles, and Bank on San Francisco.

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 found a home in the Department of Financial Institutions now known as DBO in 2012. Due to the program's history of inconsistent resources and leadership prior to DBO, it is difficult to determine the success of the program and whether it

appropriately serves the needs statewide and at the local Bank On level. The program has thrived predominantly due to the local level programs and the large-scale recognition of Bank on San Francisco. AB 1292 is needed to create long-term stability and guidance to the Bank On programs. The state provides no funding for the Bank on California program and most activities are operated by regional coalitions using local government and non-public funding from nonprofits and private companies.

The Role of Bank on California

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.

According to research conducted by the U.S. Treasury, statewide initiatives have the opportunity to serve two important roles.

Bank on California "can help cultivate new local programs by providing technical assistance, leveraging connections with statewide partners and assisting local programs in understanding financial regulations. Additionally, they can help leaders of statewide Bank On programs share best practices and resources. It is important that statewide programs clearly define their role and their relationship with existing local Bank On programs."

Bank on California may "also be able to overcome financial access challenges facing rural areas and smaller towns, which often lack the resources and infrastructure necessary to get a Bank On effort off the ground."

Bank on California is a leader, as the first established state-wide program in the nation but the longevity of the program remains unstable. Bank on California has the ability to organize local programs, provide a clear and focused point of contact for financial institutions participating in multiple local programs, and provide technical assistance and other support to reduce the burden on local programs and financial institutions.

Under AB 1292, the Bank on California Program would be established within the DBO. AB 1292 gives the program a much needed permanent home at the state level and establishes the important program in statute indefinitely. The measure requires the DBO to submit a report on an annual basis to specified committees of the legislature with the intention of keeping the Legislature apprised of the Program on an ongoing basis.

AB 1292 highlights and raises awareness towards an important program that should be maintained permanently. Too many Californians are financially illiterate and unbanked or underbanked. The goal of the Bank on California Program 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 Bank on California Program is a role model to other states and stands as the umbrella to other local city and county Bank On Programs across the nation.

Bank on California is needed 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.
- Increase 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.
- Raise awareness amongst unbanked consumers about the benefits of account ownership and spurs Californians to open accounts.
- Make quality money management education more easily available to low-income Californians and raises statewide awareness of the unbanked problem and potential solutions.

Data from the 2013 FDIC “National Survey of Unbanked and Underbanked Households”

- 7.7 percent (1 in 13) of households in the United States were unbanked in 2013. This proportion represented nearly 9.6 million households.
- 20.0 percent of U.S. households (24.8 million) were underbanked in 2013, meaning that they had a bank account but also used alternative financial services (AFS) outside of the banking system.
- The unbanked rate has varied from 7.6 percent in 2009 to 8.2 percent in 2011 and 7.7 percent in 2013.
 - The 0.5 percentage point decrease in the unbanked rate between 2011 and 2013 can be explained by differences in the economic conditions and demographic composition of households over this period.
 - In particular, compared to 2011, households in 2013 had slightly higher levels of employment and income, and were slightly older and better educated. These characteristics are all associated with a higher likelihood of having a bank account.
- While relatively small proportions of U.S. households experienced major life events in the past year, households that transitioned in or out of the banking system were more likely to have experienced certain events:
 - Among households that recently became unbanked, 34.1 percent experienced either a significant income loss or a job loss that they said contributed to the household becoming unbanked.
 - Among households that recently became banked, 19.4 percent reported that a new job contributed to their opening a bank account.

Bank on 2.0

In September, 2013, the Cities for Financial Empowerment Fund announced the creation of Bank on 2.0. Bank on 2.0 is a new effort to create a unified, national approach to delivering safe, affordable banking products and services to low-income and under-banked people through municipal programs across the country. Bank on 2.0 will build on grassroots success of a wide array of Bank On and related banking access programs. The ultimate goal will be to create a national approach and infrastructure that includes products, services, best practices, resources and other technical assistance that will facilitate local municipal efforts to connect unbanked and under-banked residents to safe and affordable mainstream banking services. By developing comprehensive, proven models, Bank On 2.0 will help individuals successfully navigate the financial system, enhancing their ability to build savings, assets and reach overall financial stability.

REGISTERED SUPPORT / OPPOSITION:**Support**

California Credit Union League (CCUL)
California Independent Bankers (CIB)
San Francisco Treasurer & Tax Collector
United Ways of California

Opposition

None on file.

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