Assembly Banking and Finance Committee

"Bank on California"

Thursday, February 6, 2014
2:00 pm- 5:00 pm
State Building
455 Golden Gate Avenue
San Francisco, CA

Introduction

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. 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.

Former Governor Schwarzenegger stated in 2008, "Through Bank on California we will help working families save money by accessing basic financial servicers others may take for granted-putting them in the financial mainstream. This simple, innovative idea won't cost taxpayers a dime, helps working families get ahead and grows our economy at the same time."

The following are programs in California: Bank on San Francisco, Bank on Los Angeles, Bank on Oakland, Bank on San Jose, Bank on Fresno, Bank on Sacramento, Bank on Orange County, Bank on Stanislaus, Bank on American Canyon, Bank On Napa Valley, and Bank On Central Coast.

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 currently resides in the Department of Business Oversight (DBO). Due to the program being pushed from department to department in the span of 5 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. 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 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. Allowing Californians the opportunity to open bank accounts, allows them to gain access to lower-cost sources of credit, begin to save, build a credit history and invest in their future.

Additional facts regarding Bank on California:

- 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.

The Unbanked & Underbanked

Unbanked means a consumer does not have a bank account.

Underbanked means a consumer has a bank account but still uses costly alternative financial services.

The Federal Deposit Insurance Corporation (FDIC) found that a quarter of the U.S. Population relies on alternative financial services such as check cashing, money orders and payday lending. Of these 30 million households, 9 million are unbanked. Twenty-one million are underbanked. Barriers to mainstream banking are most prevalent in low-income and minority communities. Almost 7 million households earning less than $30,000 per year are unbanked people. Moreover, 54 percent of African American households and 43 percent of Hispanic households are either unbanked or underbanked.

Without access to mainstream financial services, families may spend tens of thousands of dollars over a lifetime on the high fees associated with check cashing, money orders, payday lending and other alternative financial services. The average unbanked worker spends an estimated $40,000 throughout his or her life just to cash paychecks. These individuals also fall prey to short-term, high interest loans offered at check cashing outlets becoming trapped in the endless cycle of debt. Overall, alternatives financial services cost Americans about $13 billion per year.

An FDIC survey titled, 2011 National Survey of Unbanked and Underbanked Households, found that unbanked individuals cited convenience as the primary reason that they use alternative financial services, which are typically located in proximity to low-income neighborhoods and are often open during non-traditional hours when typical mainstream financial institutions are closed. Alternative services are also attractive because they provide individuals, who are often living from paycheck to paycheck, with immediate access to their money. A payday loan can be obtained in a matter of minutes, for example, while a bank loan, if even offered, requires an underwriting process and may not be available for several days or weeks. In addition, people who are unbanked are often less likely to have sufficient financial knowledge to navigate through the mainstream checking, saving and loan product options in their communities. Some individuals rely on alternative financial services because they simply have no other options. They may be unable to open a bank account due to prohibitively high minimum balance requirements or monthly service charges. Some do not have access to proper identification, such as a U.S.-issued driver's license, required by banks. Many have made mistakes in previous banking relationship that have landed them in ChexSystems, a national database that financial institutions use to identify people who have had past problems with bank accounts, such as unpaid overdraft charges. California's economic health depends on the financial stability of its residents.

Some of the key overall findings from the FDIC 2011 survey include:

- 8.2 percent of US households are unbanked. This represents 1 in 12 households in the nation, or nearly 10 million in total.

- The proportion of unbanked households increased slightly since the 2009 survey. The estimated 0.6 percentage point increase represents an additional 821,000 unbanked households.

- 20.1 percent of US households are underbanked. This represents one in five households, or 24 million households. The 2011 underbanked rate in 2011 is higher than the 2009 rate of 18.2 percent, although the proportions are not directly comparable because of differences in the two surveys.

- 29.3 percent of households do not have a savings account, while about 10 percent do not have a checking account. About two-thirds of households have both checking and savings accounts.

- One-quarter of households have used at least one alternative financial service (AFS) product in the last year, and almost one in ten households have used two or more AFS. In all, 12 percent of households used an AFS product in the last 30 days, including four in ten unbanked and underbanked households.

In addition, the FDIC found in the 2011 survey in regards to California:

- 7.8% of households in California are unbanked.
- 18% of households are underbanked.
- 70.9% of households are fully banked.
- 70.5% of households have both checking and savings accounts; 1.5% have only a savings account; 18.8% have only a checking account.
- 23.2% of households have used an alternative financial service in the last year, including all underbanked households and 66.2% of unbanked households.

Financial Institutions

Financial Institutions (banks and credit unions) are clearly very important to the success and longevity of Bank On. Banks and credit unions choose whether or not to participate in a Bank On program. The Bank On program requires participating financial institutions to adhere to several stipulations such as:

- Offer a low or no cost account.
- Accept the Mexican and Guatemalan consular identification cards as primary identification.
- Open accounts for those with a ChexSystems history that is more than one year old.
- Open accounts for those with a ChexSystems history that is less than one year old if they receive financial management training.
- Waive one set of non-sufficient funds/overdraft fees per client.
- Require no monthly minimum balance.
- Participate in four financial training sessions in the community each year.
- Actively partner with community groups to promote the product.
- Track account data and report that information on a quarterly basis.

According to a report released by Corporation for Enterprise Development (CFED) in March 2012, financial institutions defined their goals for Bank On participation in three ways:

1) New, sustainable banking relationships- Financial institutions are looking for significant numbers of new, previously un-or underbanked consumer to open account and successfully manage and retain those accounts over time.

2) Improving the financial lives of customers- This is often a primary goal for community relations staff within institutions and dovetails with the goals that policymaker and community groups have for Bank On programs.

3) Relationships with governments and community groups-The coalition or partnership approach to the Bank on model provides significant opportunities for financial institutions to build or strengthen relationships with government and nonprofit entities.

Bank On provides a business opportunity for financial institutions. While basic starter or second chance bank accounts may not be the most profitable products, a new, formerly unbanked customer can represent a good business opportunity if that customer enrolls in direct deposit, uses debit cards, uses online banking and keeps the account over time. According to the CFED, financial institutions participating in local Bank On programs around the country have opened tens of thousands new accounts, anywhere from just over a thousand to almost 80 thousand new accounts per locale. An issue remains that the direct connection between Bank On and the new accounts is hard to conclusively establish.

Participating California Bank On Financial Institutions

According to the Department of Business Oversight, below is a list of participating Bank On financial institutions:

- Amalgamated Bank
- Bank of America
- Bank of the Sierra
- Bank of the West
- BBVA Compass
- Broadway Federal Bank
- First California FCU
- Cathay Bank
- Central Valley Community Bank
- Chase
- Citibank
- City National Bank
- Comunidad Latina Credit Union
- Community Trust Self-Help FCU
- East West Bank
- First Bank
- Golden 1 Credit Union
- Kinecta Federal Credit Union
- Mission SF FCU
- Northeast Community FCU
- NuVision Federal Credit Union
- Oak Valley Community Bank
- Orange County's Credit Union
- One PacificCoast Bank, FSB
- Pacoima Development Federal Credit Union
- Patelco Credit Union
- Pan American Bank
- Rabobank

- Redwood Credit Union
- SAFE Credit Union
- SafeAmerica Credit Union
- San Francisco FCU
- San Mateo Credit Union
- Santa Clara County Federal Credit Union
- School's Financial Credit Union
- Security First Bank
- Spectrum FCU
- Sterling Bank and Trust
- Travis Credit Union
- Union Bank
- United Security Bank
- US Bank
- Wedbush Bank
- Wells Fargo

Challenges Facing Bank On

According to a report released by the U.S. Department of the Treasury, "Banking On Opportunity, A Scan of the Evolving Field of Bank on Initiatives," the Bank On program faces a number of obstacles including:

1) **Tracking data and using it to assess the impact and efficacy of the program**- Financial institutions are often limited in the information that they are able and willing to collect and report and local governments do not have regulatory authority to enforce data collection. In addition, it is not feasible to track consumer outcomes beyond the aggregate number of accounts opened and basic account activity, and many financial institutions do not collect additional demographic data. Confidentiality requirements restrict what kind of data financial institutions are able to share with outside partners. For example, financial institutions would be prohibited from releasing individual account details that Bank On program staff may want to compare with other data collected from residents. Because of this lack of individual-level data, it is difficult to understand how Bank On initiatives affect the communities they aim to serve, influence the financial behaviors and choices of those who open an account, and determine why a customer closes an account.

   Also, because financial institutions are the point of entry for the Bank On initiative, other partners may have little or no opportunity to interact directly with Bank On clients. This lack of access makes it difficult to connect customers with other beneficial services, such as financial education or credit counseling. Bank On coordinators also cannot follow up to verify whether customers were counted and tracked.

   When data is tracked, they are self-reported and not verifiable. There may not be consistent definitions or measures of account activity tracked across all programs. For example, the term "average monthly balance" can mean a different thing to different institutions. Even the definition of "unbanked" can vary across and sometimes within programs. Despite efforts to clarify the process, there is no independent oversight to determine if accounts are accurately tracked. This lack of consistency may lead to both over counting and undercounting.

2) **Financial Institutions**-Financial institutions are a necessary component to the success of Bank On. While their participation is necessary, obstacles exist. First, the support and engagement may vary by financial institutions' size, mission, and the level of commitment of

individual financial institution representatives. Financial institutions are concerned with the amount of staff time dedicated to what is often a six to 12-month negotiation process just to launch the program. They may also balk at having staff participate in numerous meetings, especially as they begin to engage in multiple local Bank On programs that may need to be staffed by the same financial institution representative. Some Bank On programs have found it easier to work with credit unions (both CDFI and non-CDFI) because by mission and design, these institutions are more focused on the needs of low or moderate income consumers and members.

While some initiatives have sought to develop more innovative products, they have found that financial institutions are hesitant to stray from what their peers have already undertaken in other Bank On programs. The product criteria developed by Bank On San Francisco inadvertently became a ceiling, and most subsequent initiatives have struggled to convince financial institutions, especially some of the larger banks, to offer additional features, such as eliminating overdraft protection charges, providing free money orders, capping monthly fees at $5, or removing opening balance requirements.

Similarly, as more Bank On campaigns emerge, large national banks struggle to respond to multiple requests from different initiatives around the country or a region. It can also be time consuming to engage financial partners. Communities in which a high-level elected official is not engaged can struggle to reach agreement on product criteria.

3) **Maintaining momentum**- The Bank On programs need continuous support and momentum in order to further expand Bank On and reach out to more individuals.

4) **Funding Limitations**- Bank On programs cost relatively little but some funding is necessary for conducting an effective marketing campaign, coordinating large numbers of partners and using creative new strategies to improve financial access outcomes. Bank On initiatives typically rely most heavily on contributions from financial institutions and in-kind resources provided by coalition partners.

5) **Financial Education**- Financial education is a common component of Bank On initiatives but many initiatives struggle with how to successfully deliver financial education so that it is convenient and appropriate for participants and improves their ability to maintain accounts and achieve financial stability.

6) **Leadership Transitions**- Because Bank On initiatives are often driven by local governments, a change in administration can potentially disrupt an initiative. When an elected official leaves office, there is a risk that his or her successor will not continue to support the initiative, particularly if it is an initiative that is closely tied to the preceding administration. Bank On programs that have navigated this transition successfully, including San Francisco, Seattle-King County, and St. Petersburg, have done so because the program has been embedded in the infrastructure of the city and the community and because local leaders have supported maintaining the program. Elected official and staff transitions can be particularly challenging to a program that is still in the planning and has not yet launched the

development stages.

7) **Evolving Field of Financial Access**-The economic environment has changed dramatically since the start of the first Bank On initiatives. According to Center for Financial Services Innovation research, regulatory reforms and technological advances are changing the types of financial products offered by financial institutions as well as the costs of products and services. Demographic and technological changes are also creating incentives for new financial service providers to enter the market. Over the past several years, large retailers such as Wal-Mart and Kmart have begun offering a range of financial products targeted toward the unbanked. In addition, a range of non-bank financial service companies such as Mango Financial and Progreso Financiero have created new products, such as prepaid debit cards and web- and mobile-based applications with advertising strategies that market specifically to low-income populations and communities of color, and which may provide terms and pricing that are better than "fringe" providers in the marketplace. Thus, there may be a new set of reasonable alternatives to both financial institutions and alternative financial service providers. While the goal of the Bank On model is to connect consumers to financial institution accounts, these new products may offer appropriate choices either as "transition" products to mainstream banking, or in some cases, as alternatives.

The Role of Bank on California

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

1) 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."

2) 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 role and purpose of Bank on California is unclear. 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. It is important that Bank on California streamlines the requirements and procedures of local programs as well as creates efficiencies that can reduce the resource needs of local programs.

Bank On 2.0

In September, 2013, The JPMorgan Chase Foundation and 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.

Legislative Action

Assemblymember Roger Dickinson introduced Assembly Bill 385 in 2013. Currently, this measure is in the Senate Appropriations Committee. This measure would place Bank on California indefinitely in the Department of Business Oversight. In addition, this measure would place expectations on what is required when a financial institution participates in a Bank On program. AB 385 would also require some reporting to the DBO so the DBO is able to more accurately determine the success of the Bank On programs. This legislation raised a number of questions regarding the program. For instance:

- How can DBO accurately monitor the benefit of the programs if financial institutions have no reporting requirements?
- Can California ensure the longevity and success of the program without statutory oversight?
- Do local Bank Ons prefer to have a set of concrete standards that may sway participation by financial institutions or do they prefer to each negotiate with each financial institution in regards to what products are offered?

Conclusion

The New America Foundation wrote in 2011, "The Bank On Approach demonstrated wide-ranging, bipartisan appeal. It's simple to understand, inexpensive to run, and is built on partnerships that can be replicated"

The Bank On program has become a national model for promoting access to mainstream financial services, supporting working families, and strengthening local economies. A Bank On program involves local partnerships among city officials, financial institutions and community-based organizations working together to better serve unbanked and underbanked residents. Bank On promotes safe, affordable financial products such as a low or no cost checking account. In addition, Bank On relies on outreach campaigns to inform the public about the program and provides financial education to help targeted residents achieve and maintain financial stability.

As California moves forward with Bank on California, the Legislature has the authority to decide whether Bank on California becomes more. Taking steps to permanently place Bank on California within the Department of Business Oversight could be a beneficial step to ensure stability. In addition, statutory guidelines could benefit a number of local governments who look to the state for guidance.