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Viewpoint: A State/Municipal Boost for Unbanked

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Efforts to improve financial options for the unbanked are getting a boost from local and state governments.

Mayors, state treasurers, and other officials across the country have woken up to the fact that large numbers of their constituents are struggling to climb the economic ladder, in part because they lack access to the kind of tools that can help ease the ascent.

Armed with convening power, marketing reach, and the promotional benefits of a government endorsement, local and state administrations are marshalling banks and credit unions to offer products and services aimed at low-income and unbanked residents.

Early results are encouraging. In San Francisco, for instance, a group of 15 financial institutions has opened more than 11,000 bank accounts in one year - serving more than 20% of the city's estimated unbanked population. If pioneering efforts like these continue to succeed, they could usher in a new generation of public-private partnerships with the potential to change the financial behavior of both consumers and banks.

Cities and states have tried a variety of carrots and sticks to ensure all residents have access to financial services. The most well-known effort was the passage of lifeline banking laws in the 1980s, after Congress lifted the interest rate cap on deposit accounts. As Regulation Q was phased out and monthly account costs began to rise, the concern was that low-income consumers would be priced out of the system.

Today six states have lifeline banking laws in place to keep monthly charges and minimum balances low. But the laws are having little impact anymore, if they ever did, in part because banks never embraced or marketed the accounts. Banks can build low-cost products, but without sufficient marketing or outreach, consumers won't come.

The newest local initiatives engage banks as partners and help them with marketing. In New York, for instance, Mayor Michael Bloomberg and a group of private foundations are paying low-income residents \$50 to open a savings account, as part of an initiative to test the power of cash incentives to change behavior.

The city's new Office of Financial Empowerment recruited eight banks and credit unions - from Lower East Side People's Federal Credit Union to M&T Bank - to offer accounts with no monthly fees or minimum balances. The \$50 incentive to consumers essentially subsidizes banks' marketing costs.

Pennsylvania has put its marketing muscle behind alternative payday loans being offered by credit unions. Legislative and regulatory efforts to rein in the state's payday loan sector proved ineffective, so the state's treasurer teamed up with the Pennsylvania Credit Union Association to develop a cheaper and better alternative through the Better Choice Program.

Sixty-two credit unions have signed up to offer the model product, and the Pennsylvania Treasury Department deposited \$20 million in the credit union system to create a loan-loss pool. A year later credit unions have originated 3,000 loans worth \$1.5 million.

The biggest success - and the one with the most potential for replication - is the Bank on San Francisco effort. The city's mayor and treasurer called on its depositories in late 2005 to bank the unbanked, but it was the banks and credit unions themselves that developed the program standards.

Participating financial institutions must accept consular cards like the Mexican matricula as a primary form of identification, provide accounts for consumers with a clean Chex Systems record, waive one set of overdraft fees each year, and waive any minimum balance requirement.

In return, the institutions benefit from the city's endorsement, a significant marketing campaign, and linkages to community-based nonprofits that help educate and funnel consumers into the system.

The original goal was to open 10,000 accounts in two years. On Monday the city announced that 11,110 accounts, with an average monthly balance of \$793, had been opened in the first year. The new goal: 20,000 accounts by the fall of 2008. Several cities have taken note of San Francisco's success and are contemplating similar initiatives, which could provide national scale. A faster route would be for the regional and national banks participating in current efforts to make the same products and services available everywhere.

Local governments are demonstrating that they can get accounts opened, but the truly hard work comes in encouraging banks to design and offer a broader suite of products and services that can help consumers build a solid financial future. If they can do that, they may truly succeed in building more inclusive local economies.

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