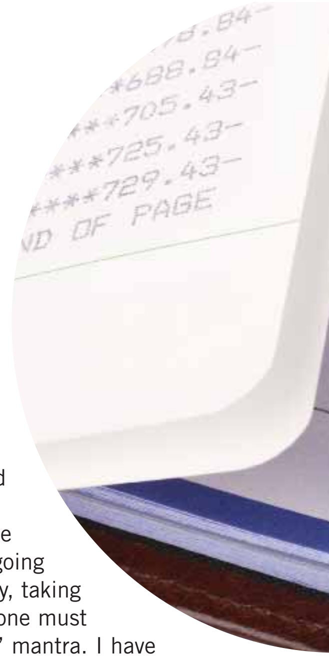
Bank On America's Cities?

QUESTIONS ABOUND | BY CYNTHIA VEGA



At a time when many families are struggling to make ends meet, city leaders across the country are taking steps to help residents become more financially stable. Aided by the National League of Cities' Institute for Youth, Education, and Families (NLC, YEF Institute) the *Bank On Cities Campaign* provides assistance to municipal leaders interested in developing initiatives to connect low- and moderate-income residents to mainstream financial services and products. These programs are all based on the commonly held belief that access to a bank account can help residents avoid costly alternative financial services and enable families to build and protect their assets.

BACKGROUND

The *Bank On Cities Campaign* grew out of an earlier technical assistance project that helped municipal officials build a comprehensive asset-building agenda. City leaders observed that millions of dollars were being spent by low-income families on alternative financial services, which had a measurable impact on local economies and community wellbeing. Project participants learned how access to financial services, the ability to accumulate and protect savings or other financial assets, and the avoidance of unmanageable debt and bad credit, are keys to family financial stability and the broader economic vitality of their cities.

***BANK ON CITIES CAMPAIGN*: THE FIRST YEAR**

In February 2008, the YEF Institute launched the first phase of the *Bank On Cities Campaign.* Modeled after the City of San Francisco's *Bank On San Francisco* program, the campaign strategically engaged a group of mayors and their senior staff in connecting residents with mainstream financial services. Project participants were encouraged to collaborate with financial institutions and community-based organizations to provide residents with access to basic, low-cost financial services. A typical *Bank On* starter account can include a free or low-cost checking account, increased access to financial services for residents who have had negative experiences with financial institutions in the past, protection from certain overdraft or other bank fees, and a financial education component. The campaign also helped municipal officials develop and advance local asset-building agendas to help families achieve financial stability.

Cities participating in the 2008 campaign included Boston, Houston, Los Angeles, Miami, New York, Providence, San Antonio, San Francisco, Savannah, and Seattle.

Those supporting and promoting the *Bank On* programs proclaim that early results from cities that have launched *Bank On* initiatives have been very promising. San Francisco, Seattle, and Houston have exceeded their initial goals to reach unbanked residents and are finding that program participants are maintaining their accounts and utilizing financial education and counseling services. However, many important questions have gone unasked and unanswered by those cities in delivering their results.

***BANK ON CITIES CAMPAIGN*: THE NEXT PHASE**

During the first year, interest in the *Bank On* model spread rapidly around the country, resulting in numerous requests to NLC for assistance in replicating the program. In April 2009, the YEF Institute selected a new cohort of eight cities to join the second phase of the project. These cities will receive technical assistance for one year to develop and implement *Bank On* initiatives and other programs that connect residents to the financial mainstream.

Cities participating in the 2009 *Bank On Cities Campaign* include Bryan (Texas), Denver, Gaithersburg, Indianapolis, Louisville, Newark, Rapid City, and St. Petersburg. The YEF Institute will work with municipal leaders from each city to forge connections among city agencies, financial institutions, and community organizations, strengthening the capacity of these cities to develop and promote opportunities for accessible mainstream banking and financial education. Project cities will benefit from the experience of NLC and the first cohort of cities as they seek to better understand the financial landscape in their communities, and develop new strategies to meet the specific needs of their residents.

The momentum behind these programs has been undeniably strong, but as FSC owners and operators know, they are based on a narrow and rather simplistic premise, with which those who have serviced these consumers for decades find it hard to accept. FiSCA Chairman Joe Coleman has a lot to say on this subject and he put some of it into words in a recent message to FiSCA staff and others in which he states:

"I am a member of low income financial services listserv started by William Meyers. I began a thread on the *Bank On* programs going on around the country, taking issue with the 'everyone must have a bank account' mantra. I have been gratified by some of the support we have received from this community. While there have been the 'predator, rip off, exorbitant fees' remarks, many of the thoughtful participants have been supportive.

Just to add an overlooked dimension to the conversation, here's some food for thought about the *Bank On* programs. While no one disputes the importance of asset building and financial literacy, it might be helpful to remember the proscription of Hippocrates – first do no harm. For many low-income citizens who need all their money every week and cannot afford to leave money sitting unused in a bank account – a bank account can be a losing proposition. As we all know, banks rely on balances to some degree, to pay for services. Generally speaking, the structure of the banking business model does not favor 'low balance/high volume' accounts. For those consumers, a check-cashing relationship is faster, cheaper, and better than a banking relationship. The check-cashing business model is highly efficient at providing transaction-based financial services and so can provide such transactions at less cost than banks can – precisely because the check-cashing model does not need to pay the overhead for maintaining deposit accounts.

Transition is the key. The mantra that 'everyone must have a bank account,' if put inattentively into practice, can actually be harmful to some. I have personal experience of people who have found banking relationships to be ruinous owing to back end, unexpected charges that wipes out what little cushion they had, before they knew it. What is helpful, and where we are most deficient in thinking about financial literacy programs, is in taking into account the genuine need that people have for transition – both up to more asset-building opportunities as circumstances approve, and down to more transaction-based services when circumstances demand it.

If we could reduce our bias about the

need for transaction-based services we could build better programs that would help those who are ready to transition to deposit-based services and help those who are not, make the most cost-effective use of the transaction-based providers. In my opinion, such an enlightened approach would make the *Bank On* program more effective."

In response to Joe's posted comments, he received this thoughtful reply from a reasonable mind on the other side of this issue:

"You've definitely identified a critical issue in the campaign that I encountered as I began leading the initiative with the organization I work with. Your last paragraph hits the nail on the head and there's really nothing I can add aside from the fact that I completely agree with you. I found it very interesting how the campaign stressed, as you pointed out, this 'everyone must have a bank account' mantra and by how simply providing information and how-tos about bank accounts that all of a sudden we would see our own disinvested communities transform. I think perhaps some of those behind the campaign have underestimated the people it aims to help. As I travel in and out of these communities, I'm seeing that it's not usually a lack of knowledge about banking. Many people really do have legitimate reasons why being 'unbanked' is a better option (neighborhoods where banks have no representation and most households have income earners who don't own a car and work odd hours, day laborers that don't have steady incomes, etc.). I prefer an approach that presents information on all alternatives; highlighting which services would be appropriate for which situations. At least, expose people to the information and show them ways to utilize their money in better ways, whether they're unbanked or banked. In my opinion, the campaign can pressure its member organizations to promote bank accounts as the panacea to this issue. I think the foundation should be about money management and introducing this into one's lifestyle. The use of financial services would follow. Not everyone targeted by this campaign will be motivated to open a checking or savings account. For them, we need a 'But, if you're not going to have a bank account and continue to use other (fringe) financial services, make you sure do it correctly' approach. For this reason, I have refused to allow our workshops to center primarily around banking. There are so many other issues that should/could be confronted. It's obvious that bank services aren't as comprehensive and diverse as many would think. These 'fringe' financial services fulfill a need, whether we like it or not, in the community. Union Bank and Kinecta Federal Union are the only financial institutions I know of that have attempted to mirror those financial services where holding a bank account wouldn't be most appropriate."

Joe's efforts show that it is possible to make headway and to turn open-minded opponents into potential allies. ■

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