From Mattress Money to Checking Accounts

A Profile of Bank on San Francisco

"You don't have to worry about somebody snatching money from you when you come out of the check-cashing place – or losing it," Virginia Johnson, 71, said of how her life has changed after opening a checking account through Bank on San Francisco.[1]

For individuals without a bank account, the seemingly simple act of cashing a check or paying a bill can be complicated, expensive, and, as voiced above, risky. But few actively choose to stay outside of the financial mainstream–otherwise known as being "unbanked". Many people face barriers to accessing mainstream financial services, and instead turn to alternative providers such as check cashers and payday lenders to pay bills and manage their finances.

Until recently, mainstream financial institutions have done little to tailor their products, policies and outreach efforts to the unbanked market. Increasingly, however, the volume of business conducted through the alternative, or "fringe," financial services industry–an estimated 340 million transactions costing customers $13 billion a year[2]–is being taken as a demonstration of the demand for financial services among the unbanked. Bank on San Francisco, launched in 2006, is a pioneering effort that seeks to tap into this market opportunity and help the unbanked open checking accounts, a first step in participating in the financial mainstream. To date, more than 15,000 new accounts have been opened across the city, surpassing the initial goal of 10,000 new accounts in two years. As word of Bank on San Francisco has gotten out, other cities and organizations across the nation have begun to explore the possibility of launching similar initiatives. To support the replication of this effort, this article reviews the genesis of the program, and looks at some of the lessons learned thus far.

Why are People Unbanked?

Nationally, as many as 22 million people lack basic checking and savings accounts, and are generally referred to as the "unbanked" or "underbanked". Yet it would be a mistake to see the unbanked as a monolithic group. The unbanked sector is composed of a wide range of individuals who have varied reasons for conducting either some or all of their financial transactions outside the mainstream. Some may not use bank accounts because they live paycheck-to-paycheck and may be fearful of minimum balance requirements or overdraft penalties. In some cases, those who are unbanked had–and perhaps mismanaged–a bank account at some point in the past, and their negative credit histories keep them from opening new accounts. For recent immigrants, identification requirements for opening an account may be a hindrance to bank usage; others may have a cultural distrust of financial institutions. Still others may use fringe outlets instead of banks because they may offer a less intimidating environment than a bank or have more convenient locations or hours of operation.

For households without a bank account, the costs of using fringe financial services are high. Estimates suggest that among households lacking a checking account, 52 percent include at least one full-time worker, and using a non-bank check casher costs the household an average of $40 per payroll check.[3] Perhaps more significantly, the unbanked do not have access to the tools necessary for creating savings and building assets, which leaves them particularly vulnerable in times of crisis or emergency. Owning a checking or savings account is the first step in allowing consumers to enhance their financial security and climb the economic ladder–to save and build credit toward covering health care costs, to purchase a car or a home, to send children to college, or to retire.

BANK ON SAN FRANCISCO

Bank on San Francisco

How did Bank on San Francisco get started? Much of the motivation for developing the Bank on San Francisco stemmed from data that came out of the Working Families Credit initiative, a city program that aimed to encourage low-income residents to apply for the federal Earned Income Tax Credit (EITC). This program offered a ten percent local match to the federal EITC for families with children, on average providing an extra $220 to the city's working families. However, city officials were dismayed to discover that many recipients were cashing their Working Families Credit checks at check cashers. "It tore me up that people were taking $100 or $200 checks to check-cashing stores and losing a significant amount to fees," said City Treasurer José Cisneros.[4]

This state of affairs prompted a simple question: if there are clear costs to families who don't have access to banking services, and there are clear financial benefits to banks and credit unions in attracting and retaining new customers, is it possible to bring the public and private sectors together to help unbanked residents overcome the barriers to entering the financial mainstream?

Anne Stuhldreher, then a Fellow at the New America Foundation and one of the early architects of the Working Families Credit, promoted the idea of an initiative to "bank" the unbanked and argued that this type of effort would neatly link to the city's interest in helping working families keep more of their earnings. Stuhldreher, in partnership with the city, approached a number of partners to serve on a steering committee to guide the development of a strategic plan for such an initiative. EARN, a nonprofit that helps low-income San Franciscans build savings and assets, was enlisted to provide perspective on the needs of unbanked consumers and to help establish networks with other nonprofit partners. The Federal Reserve Bank of San Francisco became involved to offer expertise on regulatory issues associated with banking products and services and to help convene financial institution partners.

The discussions that ensued led to the creation of Bank on San Francisco. A partnership between the offices of Mayor Gavin Newsom and Treasurer José Cisneros, the Federal Reserve Bank of San Francisco, EARN, and financial institutions across the city, Bank on San Francisco began in 2006 as an effort to bank the City's unbanked through appropriate products and innovative outreach channels. While the specifics of the initiative have evolved over time, the essential goals of Bank on San Francisco were articulated early on by Mayor Newsom and Treasurer Cisneros. The initiative seeks to:

- Change bank products and policies to increase the supply of low-cost starter account options for the unbanked market.
- Raise awareness among unbanked consumers about the benefits of account ownership.
- Provide quality financial education and equip residents of San Francisco with the tools they need to build assets and achieve financial security.

First Steps

The first challenge facing the steering committee was to develop an estimate of how many residents in the city lacked a bank account, and to gain a better understanding of how the city's lower-income earners view and use financial service providers. Developing an accurate count of the number of unbanked at the local level is difficult. The Survey of Consumer Finances, collected by the Federal Reserve Board, is the main data source that includes information about checking and savings account usage, but the sample is designed to paint a national, not local, portrait of consumer finances.

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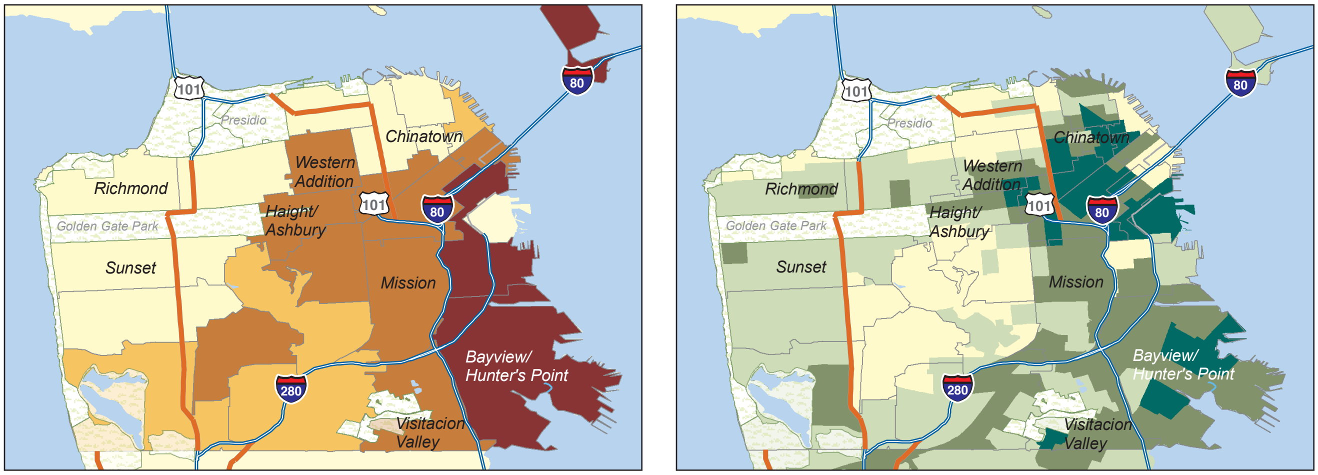
However, it is possible to use these national figures to approximate the size of the unbanked market. Matt Fellowes, then of the Brookings Institution, a public policy think-tank in Washington D.C., used the national data to derive estimates of the unbanked in San Francisco. His research estimated that at least 50,000 households in the city were unbanked, and that many of them were Latino and African American. His research also showed that while many of the unbanked had extremely low incomes, a significant share of unbanked households in San Francisco earn between $20,000 and $40,000, a good target market for the initiative. From these estimates, the initial Bank on San Francisco task force set the Initiative's goal of opening 10,000 accounts. Data from the Working Families Credit program also pointed to the large number of unbanked among African American and Latino households in the city, and showed that many of these households were clustered in the Mission and Bayview Hunters Point neighborhoods. (See Figure 1)

In addition, the city held several focus groups with unbanked residents in San Francisco to uncover their experiences, aspirations and fears related to financial services. The focus groups offered several insights and take-away lessons about the barriers to accessing the financial mainstream. Focus group participants emphasized the value of "second chance" accounts, and voiced concerns about hidden fees and identification barriers. In addition, participants noted some cultural barriers to using financial institutions–involving both general distrust of financial institutions, and more basic concerns about the lack of culturally and linguistically appropriate service and materials.

Building the Collaborative

The next challenge? Bringing the financial institutions to the table by making the case that this kind of initiative would benefit not only city residents, but would also help to develop long-term customers for the banks. The Federal Reserve Bank of San Francisco, along with the Mayor and Treasurer, invited bank and credit union executives to come

Figure 1. *Many unbanked households in San Francisco reside in CRA-eligible areas.*



Unbanked in San Francisco by Zip Code
Percent Unbanked, 2004

- 0-10%
- 11-20%
- 21-35%
- 36-50%

Source: Working Families Credit Survey

CRA Eligibility by Census Tract

- Low Income
- Moderate Income
- Middle Income
- Upper Income

Source: FFIEC

together to discuss the potential of such an initiative, and then asked them to agree to work collaboratively to develop a Bank on San Francisco product.

And then the hard work began. Using the information garnered from the focus groups, participating institutions set upon crafting a product that would address both the hard and soft barriers to banking. This process involved negotiation and compromise; the steering committee had specific ideas for what they wanted banks to develop, and in turn, the banks offered feedback as to what was and was not feasible. During the process of negotiating product features, a few institutions dropped out of the initiative, and others joined. But a year after the first meeting was held, the Bank on San Francisco initiative was defined. While the initial concept was to create a unique "Bank on San Francisco" account, due to concerns about timelines for product roll-out, the steering committee agreed to allow each financial institution to offer its own unique product meeting a set of minimum requirements. Banks and credit unions participating in Bank on San Francisco have agreed to:

- Offer a low- or no-cost product with no minimum balance requirement;
- Adapt internal systems to allow customers on ChexSystems to open an account;
- Accept consular ID cards as primary identification;
- Waive one set of overdraft fees per client; and
- Provide quarterly data to the Federal Reserve Bank of San Francisco on the number of accounts opened, the number of accounts closed, the average monthly balance of the accounts and the zip code of the account holder. As a neutral entity, the San Francisco Fed is able to both collect and guard the privacy of such data.

Nearly all of these elements prompted concerns from banks, and in order to come to agreement, the collaborative had to contend with the different cultures, resources, and internal procedures among the banks and credit unions at the table. First, the issue of no- versus low- cost raised interesting questions: would customers feel accountable if they were offered a free account, or would the accounts be more successful if customers had to put up some of their own money? Would they be willing to pay a small fee? Focus group participants had expressed that cost was a concern, but indicated that they were willing to pay a small fee for an account as long as the pricing was transparent; indeed, some voiced a slight bias against free accounts, as they harbored a distrust for "free" offers that might turn out to have hidden fees. Ultimately, it was agreed that banks could choose whether accounts would be no- or low-cost, but the Steering Committee was firm on its position that the accounts have no minimum balance requirement.

The second key point of discussion was around ChexSystems. ChexSystems is a network of member financial institutions that contribute information on customers who have mishandled checking and savings accounts. Wary of exposure to excess risk, many banks do not offer new accounts to those who appear in the ChexSystems database. But this policy is a major barrier for many of the unbanked. Discussions around this issue resulted in an agreement among banks to revise their policies to offer “second-chance accounts” for those who have mismanaged an account in the past. However, some banks are requiring customers to repay debts on past accounts in order to open a new account at their institution.

Another major sticking point was around the acceptance of alternative IDs such as the Mexican Matricula Card and Guatemalan consular IDs. Some banks were concerned with the reputational and regulatory risks involved in accepting such forms of identification, and were particularly wary of the potential for increased scrutiny under the Patriot Act. In addition, some banks were unwilling to change policies on a local level that would trigger potential risk in other areas of their business footprint. In the end, however, the group determined that if they were truly seeking to reach unbanked residents of the city through this program, participating institutions would have to accept alternative forms of ID.

Finally, there was some back-and-forth on the issue of overdraft fees. At the outset, the Steering Committee wanted up to three instances of overdraft to be forgiven for Bank on San Francisco accountholders, as they felt that there needed to be room for new customers to learn financial management skills before being penalized. Managing a bank account can be particularly confusing for new customers using a debit card at a point-of-sale, as, contrary to at an ATM, there is no indication that one’s account has been overdrawn. However, participating institutions argued that waiving three sets of fees was too lenient, and settled on waiving fees for a Bank on San Francisco customer’s first instance of overdraft.

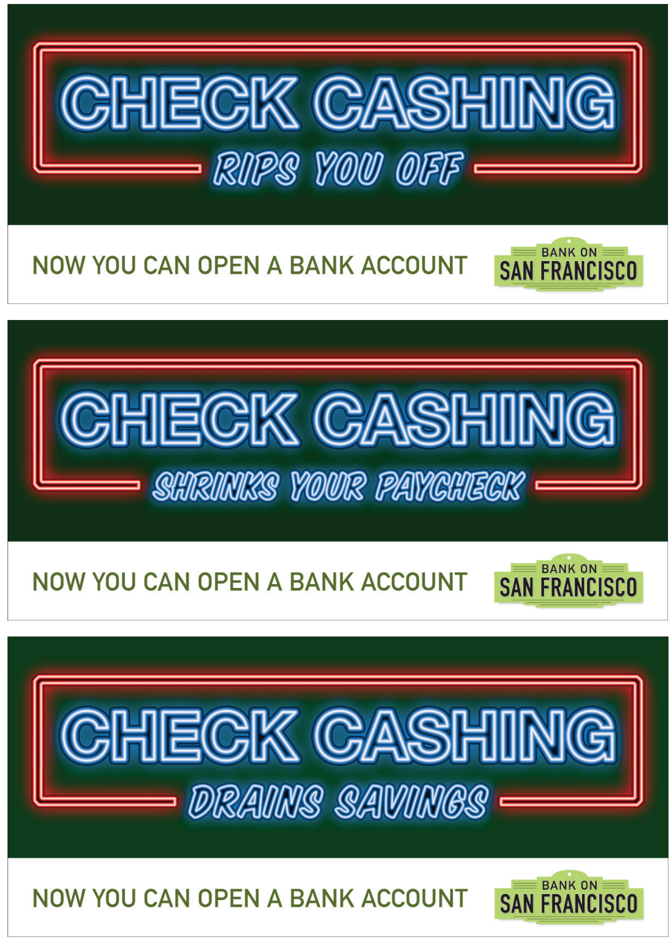


Figure 2. *The Bank on San Francisco media campaign, which included outdoors billboards and bus advertisements, was aggressive in portraying the wealth-stripping features of check cashers.*

The Marketing Strategy

With the product in place, the next challenge was to develop a marketing campaign that would be effective in reaching the unbanked. Recognizing that various segments of the unbanked face different barriers to opening accounts, two separate marketing campaigns were developed to target the immigrant Central-American market in San Francisco and the African American community in the city’s southeastern neighborhoods.

One of the key factors in Bank on San Francisco’s success was the partnership with McCann Worldgroup, a renowned advertising firm based in the city. McCann graciously worked *pro bono* to develop a Bank on San Francisco logo and tagline and all other program materials including brochures, posters, window clings for bank branches, coupons, outdoor advertisements and a website. McCann also developed a media strategy that relied heavily on generating press and *pro bono* advertising in ethnic and community newspapers, television, and radio and included a citywide outdoor media campaign on buses and billboards. The campaign was aggressive in both promoting the Bank on San Francisco initiative, and in portraying the predatory and wealth stripping features of check cashers and payday lenders. (See Figure 2) All participating financial institutions were asked to contribute to printing costs of the marketing materials.

In addition, many other partnerships with nonprofits and other local agencies have proved to be important in supporting and getting the word out about Bank on San Francisco. The United Way, for instance, through its 2-1-1 Helplink phone system, is offering referrals to Bank on San Francisco institutions. With one call to 2-1-1, callers can obtain bank and credit union locations and branch manager contact information. One Economy, the leading provider of web-based services to low-income communities, provides on-line referrals to Bank on San Francisco branches. PG&E also helped to get the word out to its 55,000 low- and fixed-income customers enrolled in its CARE program—an income-qualified program that offers discounts on monthly energy costs—through a letter about Bank on San Francisco. In-Home Supportive Services, the Human Services Agency, the Mayor's Office of Community Development and many others have assisted in providing outreach to unbanked city residents.

Linking Accounts to Asset Building

Another vital element of the program is to make quality money management education more easily available to low-income San Franciscans, as financial education is key to helping residents manage and build assets over the long term. Initially, participating banks aimed to develop a standardized curriculum for financial education classes in the city that would be certified as Bank on San Francisco approved trainings. This proved difficult, as did other efforts to get account openers to attend financial education classes offered at a central location in the city. Now, EARN serves as the primary broker of financial education–both providing classes directly to account openers and offering training through community based organizations.

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Moving Forward

Bank on San Francisco is demonstrating that new products and outreach strategies can help the unbanked succeed in the financial mainstream. Bank on San Francisco's success is reflected not only in the volume of accounts that have been opened, but also in the inquiries the city has received about the program from Atlanta, Denver, Miami, Boston, and many other jurisdictions around the nation. In addition, the National League of Cities has recently launched a "Bank on Cities" campaign that will provide technical assistance to help cities around the nation design and launch efforts modeled on Bank on San Francisco.[5] The Federal Reserve Bank of San Francisco is also working with partners in many of the other cities within its district, such as Los Angeles, Seattle, and Tucson, to replicate this type of program there.

The lessons learned in developing and managing Bank on San Francisco can help these other cities navigate the challenges associated with banking the unbanked. One set of lessons revolves around the collaborative structure of the program. Bank on San Francisco is unique in that large and small banks, as well as credit unions, actively participated in developing all aspects of the program. This collaborative structure has a number of benefits, but building trust among participants and crafting products that suit the needs of all partners does not happen overnight. It took almost a year for Bank on San Francisco partners to develop mutually agreed upon product and systems-change ideas. For cities looking to replicate Bank on San Francisco, it will be important to determine the appropriate partnership structure and plan timelines accordingly.

In a related vein, it is vital to involve a host of partners in such initiatives, including local banks, community organizations, national experts, and banking regulators. But creating and maintaining both the commitment and momentum of such a range of partners is challenging, and ultimately requires dedicated staff to coordinate all aspects of the program. Leigh Phillips, of the Office of the Treasurer, became Bank on San Francisco's full-time program manager, and is responsible for all day-to-day operations including outreach, marketing, fundraising, evaluation and overall program design.

In addition, the rapid uptake of Bank on San Francisco products demonstrates that there is a clear demand for mainstream services among the previously unbanked. But a significant challenge remains in ensuring that opening a bank account is only the first of many steps for city residents to attain financial security. Financial education is critical to helping new banking customers establish savings, reduce debt, build credit and acquire assets, but, as indicated above, it has thus far proven difficult to develop culturally sensitive financial education curriculum and delivery mechanisms that effectively reach clients. Improving financial education efforts, as well as efforts to permanently move people away from fringe financial providers, will go far in making sure that a new bank account is not an end-goal, but rather a springboard toward achieving true financial security.

Conclusion

Bank on San Francisco has proven to be a welcome addition to the asset building toolkit for the city's working families. "I couldn't be more proud of the work we have done so far with Bank on San Francisco," said Treasurer Cisneros. "Not only are San Franciscans opening accounts in large numbers, but these accounts are staying open, being used and are maintaining healthy monthly balances."[6] It is unique in that it has shown itself to be beneficial for government agencies, financial institutions, community groups and unbanked residents, and has received high-levels of support from the public and the media. There is, however, still much to learn about how to better link the unbanked and newly banked to additional opportunities to learn prudent financial management skills and grow their earnings. Indeed, the financial instability and vulnerability wrought by the subprime mortgage crisis makes a strong case that more resources need to be dedicated to improving and expanding programs like Bank on San Francisco that protect and empower those seeking to climb the economic ladder. CI

From Mattress Money to Checking Accounts

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Employer Assisted Housing

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Streamlining the Mortgage Approval Process in Indian Country

1. As sovereign governments, tribes have the right to form their own government; the power to make and enforce both civil and criminal laws; the power to tax; the power to establish membership; the right to license, zone and regulate activities; the power to engage in commercial activity; and the power to exclude persons (Indian and non-Indian) from tribal territories.
2 See Listoken et.al (2004). The effective homeownership rate is calculated to reflect the factors that are usually associated with homeownership tenure in the United States: many owned units on Reservations are Mutual Help (which is a rent to own program and is not market based, and 'owners' cannot sell their units). The effective homeownership rate also excludes units that don't have electricity, plumbing or a kitchen.
3. The terms of the mortgage product are also beneficial to borrowers. The downpayment requirement is low: 1.25% to 2.25% depending on the appraised value of the home. In addition, borrowers need not take out private mortgage insurance (borrowers pay a 1% guarantee fee at closing), and need only to demonstrate a 41% debt to gross income ratio which can be exceeded with compensating factors. Section 184 loans can also be sold to Fannie Mae and Freddie Mac in the secondary market. While initially the program was targeted primarily to on-reservation lending, the Section 184 program was expanded in 2002 to apply more broadly to all tribal areas.