

BANK ON SAN FRANCISCO

EVERYONE IS WELCOME

Bank on San Francisco An initiative to bring all residents into the financial mainstream

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INTRODUCTION

On December 2, 2005, San Francisco Mayor Gavin Newsom and City Treasurer José Cisneros invited the presidents of the city's financial institutions to a breakfast at the Federal Reserve Bank of San Francisco. Their purpose was to challenge the financial institution leaders to launch an unprecedented initiative called Bank on San Francisco. The goal would be to bring 10,000 of the city's estimated 50,000 "un-banked" households into the financial mainstream by helping people to open low-cost starter accounts. The Treasurer and Mayor urged the bank presidents to see the un-banked as an untapped market, one that could be served profitably to benefit their bottom line, individuals, and the San Francisco community.

Bank on San Francisco was launched in September 2006. San Francisco is the first city in the country to launch a comprehensive initiative to bring its "un-banked" residents into the financial mainstream. This case study describes why and how Bank on San Francisco was started. It is written for individuals in other cities who may be considering similar initiatives.

WHAT IS BANK ON SAN FRANCISCO?

Bank on San Francisco is a collaborative effort to bring 10,000 of the city's estimated 50,000 un-banked households into the financial mainstream. The Mayor's Office and the Treasurer's Office of the City and County of San Francisco, the Federal Reserve Bank of San Francisco, a local nonprofit EARN (Earned Assets Resource Network), and the city's financial institutions worked together to:

- 1) Increase the supply of starter account products that work for the low-income un-banked market by developing baseline product criteria that must be offered by all participating financial institutions.
- 2) Raise awareness amongst un-banked consumers about the benefits of account

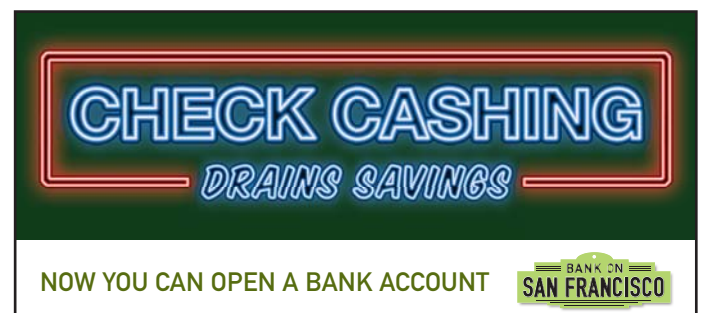
ownership and spur them to open accounts.

- 3) Make quality money management education more easily available to low-income San Franciscans.
- 4) Clamp down on the proliferation of check cashers and payday lenders.
- 5) Raise city-wide awareness of the un-banked problem and potential solutions.

WHY DID CITY LEADERS DECIDE TO START BANK ON SAN FRANCISCO?

Like most cities, San Francisco is a city of two different financial services systems. In one, people may choose from a variety of institutions to safely save and access their income, obtain loans to buy homes and build businesses, and create financial stability and prosperity. But for many San Franciscans, there are seemingly insurmountable obstacles to accessing this system. So they turn to the other, comprised of check cashers, payday loan providers, pawn shops, auto title lenders, and rent-to-own stores. These alternative providers charge high fees and can mire individuals in a cycle of debt—even if they work hard and earn a paycheck week after week. Individuals are hard-pressed to build savings and assets if they rely on check cashers to conduct their financial lives.

This problem is not unique to San Francisco. In fact, one in four Californians—and an estimated 22 million Americans—are "un-banked," meaning they lack access to a basic checking or savings account. Millions of others, the "under-banked," have bank accounts but are not fully integrated into the banking system. While many would like to have accounts, they are discouraged from doing so because of negative credit histories, high mandatory minimum balance



McCann Worldwide developed advertisements like these for
Bank on San Francisco.

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requirements, lack of state identification, and a general distrust of financial institutions.

Cities often have large numbers of un-banked residents, given their likelihood to have concentrations of immigrants and lower income residents. To date, however, no major American city has launched a comprehensive policy initiative to bring its un-banked residents into the financial mainstream. Cities are well-positioned to play a catalytic role to work with banks, community groups, and other stakeholders to build an inclusive financial system.

WHY ARE SO MANY PEOPLE UN-BANKED?

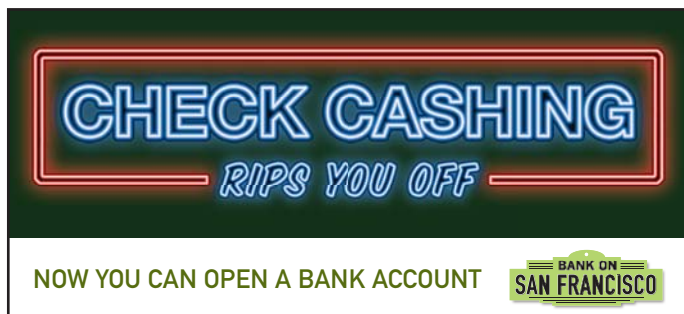
Some people think they simply don't have enough money to open an account. Their entire paycheck is gone at the end of the month after paying bills. Others have had an account in the past and have had some problem managing it—such as bouncing checks—that now prevents them from opening an account. Others, such as immigrants, may think they don't have proper identification to open an account.

WHAT IS THE SOCIAL COST OF NOT HAVING A BANK ACCOUNT?

Without a bank account, people pay more to conduct their financial transactions. People who regularly use a check casher can spend nearly \$800 a year.

Families without accounts don't have a safe place to keep their money. They walk around with wads of cash in their pockets or keep it at home in a coffee can. Robberies are more prevalent around check cashers, especially on payday. Un-banked individuals are especially vulnerable in the event of a disaster. Seven out of ten Hurricane Katrina evacuees didn't have bank accounts. Their savings were washed away with the rest of their belongings.

A bank account is the first step to financial security. Without one, it's harder to get well-priced car loans, credit cards, or mortgages—the exact financial tools needed to climb the economic ladder. Families are subsequently stuck going to costly pawn shops,



payday lenders, and rent-to-own stores.

HOW DID BANK ON SAN FRANCISCO START?

Anne Stuhldreher, a Fellow at the New America Foundation, approached the staff of San Francisco Mayor Gavin Newsom and City Treasurer José Cisneros with the initial concept. The Treasurer's Office convened a working group comprised of the staff of the Mayor and Treasurer, the Mayors Office of Community Development, New America Foundation, and Earned Asset Resource Network (EARN), a citywide nonprofit that helps low-income residents build assets. The Federal Reserve Bank of San Francisco joined the group soon after hearing about the program.

The group decided to undertake a planning process that would:

- 1) Assess the market of un-banked consumers. The group wanted to size and segment the market and conduct focus groups to understand consumer preferences.
- 2) Assess what financial institutions nationwide are doing to effectively serve this particular market group.
- 3) Assess the interest of financial institutions and community organizations in partnering with Bank on San Francisco.
- 4) Create a collaborative process for financial institutions, the Federal Reserve, the city, and nonprofits to develop the initiative.

WHAT WAS LEARNED DURING THE PLANNING PROCESS?

- 1) *San Francisco's un-banked market is sizeable and has distinct consumer segments with different needs and preferences.*

The team reached out to Matt Fellowes at the Brookings Institute to size the un-banked market. His analyses found that an estimated 50,000 San Francisco households—or one in five households—did not have bank accounts. This percentage mirrors national estimates of the un-banked market. Fellowes also estimated that half of the city's African-Americans and Latinos lack accounts. Fellowes additional research concluded that:

- The majority of San Francisco's un-banked are between 18 and 45.
- While largely low-income, a large share of

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households earning between \$20,000 and \$40,000 are un-banked.

Fellows developed a map to show what zip codes the un-banked are most likely to live in. Given these analyses, the group decided to conduct focus groups with un-banked Latino and African-American residents. Alisa Weiner, a marketing expert, and her colleague Judy Jones, donated their time, facilitation and analytical skills, and facilities. The working group learned the following:

- Poor credit (afflicting nearly all of the participants) is a source of significant frustration and regret. The idea of a “second chance” account resonated deeply.
- All of the participants use check cashers (official and unofficial) and believe that check cashers charge excessively high fees.
- Building credit is seen as an important goal, and participants recognize that they are penalized because of their credit problems.
- The participants find regular bank accounts expensive due to all the hidden costs and fees (especially related to overdrafts and minimum balances).
- Participants feel they work hard for their money, and they like the idea of Bank on San Francisco helping them keep more of what they earn.
- The women viewed money management classes as a positive benefit, whereas the men thought it could be a waste of time.
- Participants reacted positively to the idea of a special no/low cost bank account available through a program like Bank on San Francisco especially if it is available to people with credit problems who can’t otherwise open accounts.
- Endorsement by the Mayor and Treasurer would bring credibility to Bank on San Francisco, and increase the belief that these accounts will be different. There is a particularly strong halo effect due to the Mayor’s popularity and reputation for caring about lower-income San Franciscans.

From further research, the working group learned that Latinos who are un-banked often don’t realize that a social security number is not needed to open an account, and that a Mexican or Guatemalan identification card is sufficient to open a bank

account. For the African-American un-banked, appearance on Chex Systems was the biggest barrier they had to opening accounts. The Chex Systems, Inc. network is comprised of member financial institutions that regularly contribute information on mishandled checking and savings accounts to a central location. Chex Systems shares this information among member institutions to help them assess the risk of opening new accounts.

- 2) *Check cashing and payday lending establishments are over-represented in the city’s ethnic low-income communities.*

Brookings found that:

- San Francisco’s core providers of check cashing and payday lending services sell over \$40 million worth of fringe financial service products every year out of 56 locations.
- Core providers of check cashing and payday loans are heavily concentrated in San Francisco’s poor Latino neighborhoods. About half of the city’s core providers of fringe financial services are located in four neighborhoods in the city.
- California allows payday lenders to charge a maximum of \$17.65 for a 30 day \$100 loan. That is effectively the same rate that someone with a high-rate credit card would pay to borrow \$100 over an entire year.

Based on these findings, the Treasurer and San Francisco County Supervisor Tom Amiano introduced an ordinance to call for a temporary moratorium on new payday lending and check cashing outlets in the city. The ordinance passed unanimously. The Board of Supervisors is now considering permanent controls, similar to those passed in Oakland and National city.

- 3) *Nationally, many financial institutions are offering accounts that meet the needs of un-banked consumers. Sometimes, however, they are not marketed well, or consumers are not aware of them.*

The working group looked nationally to see what account features banks are adopting that are “win-win” — meaning they are both profitable and meet the needs of un-banked consumers. They learned about several practices that they wanted to see more widely adopted and promoted in San Francisco:

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■ *Second Chance checking accounts.* These accounts offer a “second chance” to people who have mismanaged accounts in the past. A handful of national and local banks and credit unions offer them. The “Get Checking” program is especially interesting. Twenty thousand of these accounts have been opened as part of the Get Checking program. Participants go to a six-hour money management class where they learn how to manage a checking account. They then receive a certificate that they can redeem at participating banks. Ninety-eight percent of account holders have successfully maintained their accounts. Participating banks have been very satisfied with the program. Other banks have created Second Chance checking products that don’t require money management education but have some restrictions.

■ *Acceptance of the Mexican Matricula Consular Card and other foreign IDs as valid identification to open accounts.* Only 404 financial institutions in the United States are currently accepting the Matricula as a valid form of identification to open a bank account, mainly because they are unclear about what they can and cannot do under the Patriot Act. The New Alliance Task Force, an initiative led by the Federal Deposit Insurance Corporation (FDIC) in the Midwest to educate and inform banks about the card and other alternative IDs, spurred more than 157,000 un-banked individuals to open accounts with average balances of \$2,000 in the past four years.

■ *“Bounce proof” features that lower the likelihood that an account will be overdrawn.* Many banks offer “checkless” accounts that limit account holders to making payments with their card. Others waive non-sufficient funds fees for a limited number of overdrafts.

4) *The city’s supply of money management classes is disconnected from consumers. The quality of these courses varies significantly.*

EARN is a nonprofit that helps low-income San Franciscans build the savings and assets they need to leave poverty behind for good. They are experienced providers of money management classes to individuals who open their “Earn 2 for 1” accounts, commonly known as Individual Development Accounts or IDAs. They researched and surveyed the field of San Francisco money management providers and found that:

- 1) A wide range of banks, nonprofits, and educational institutions offer money management training throughout San Francisco.
- 2) These trainings have different content (i.e., a focus on credit repair, first-time home purchase, household budgeting, etc.) and focus on different population groups (at risk youth, adults, etc.).
- 3) The trainings varied in quality, cultural relevance, and understanding for the targeted audiences.

Perhaps most importantly, EARN saw that this far-flung supply of money management training is disconnected from the demand group—people that want to take the classes and can benefit from them. EARN also saw that community groups, schools, churches, and employers that were likely to bring in a provider of money management training to teach a class to their constituents often don’t know who to approach.

EARN saw it could play a “brokering” role between the city’s money management class providers and the groups that need them. For example, if a nonprofit wanted to offer a course on how to buy a home to its constituents, EARN could refer them to an appropriate bank or nonprofit that provides high quality training. EARN could also provide a range of money management trainings themselves. EARN staff could also provide consulting services to money management providers (free to nonprofits) that want to strengthen their money management training offerings to best meet the needs of those receiving training.

- 5) *A critical mass of financial institutions and nonprofits were interested in participating.*

The Treasurer’s office held one-on-one meetings with representatives of all of the city’s major financial institutions and some key credit unions. The purpose was to gauge their interest in participating in Bank on San Francisco and in helping to shape it. The Treasurer also convened key nonprofit leaders that are active in building the financial security of lower income San Franciscans to get their input and ideas.

HOW DID THE BANK ON SAN FRANCISCO COALITION GEAR UP TO LAUNCH?

After the initial meeting at the Federal Reserve Bank of San Francisco when San Francisco Mayor Gavin

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Newsom and City Treasurer José Cisneros convened the city's financial institution leaders, the working group held a more in-depth meeting with financial institution leaders.

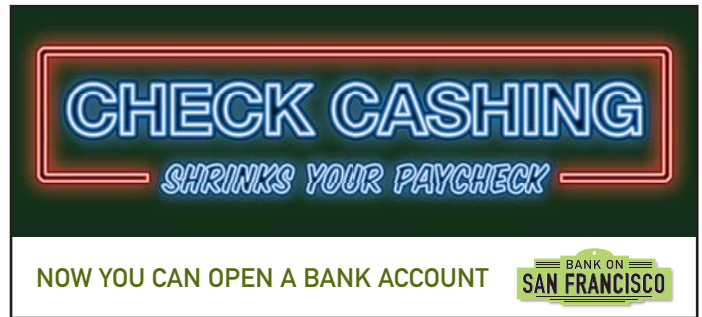
They presented their findings about the size of the un-banked market in San Francisco. They also presented on what they learned from the focus groups about the needs and preferences of un-banked consumers. Jennifer Tescher, director of the Center for Financial Services Innovation, gave a presentation on how financial institutions across the country are effectively reaching the un-banked market. Michael Frias, of the Federal Depository Insurance Corporation, discussed how the New Alliance Task Force is helping banks learn about how they can accept the Matricula Consular Card and develop products and services to help Latino immigrants save, send money to their home countries, and buy homes.

At the end of the meeting, they asked the financial institution leaders to break into one of four working groups. All working groups met regularly over a six month period, each with a particular task on mind:

1) Product Development. The goals of the product development working group were to develop a set of "minimum thresholds" for each bank to meet as part of their Bank on San Francisco product. Although there was some initial discussion about a common product, the big banks were worried about the timeline for rolling out such a product, so the decision was to focus on minimum thresholds for the first year and then potentially consider a common product at a later date.

In order to participate in Bank on San Francisco, the working group determined that banks would have to offer an account that has the following minimum requirements:

- Acceptance of Mexican and Guatemalan Consular ID cards as primary identification.
- Open accounts for those with non-sufficient funds/overdraft history on Chex Systems which is over one year old.
- Open accounts for those on Chex Systems less than one year old with money management training.
- Waiver of one set of Non-Sufficient Funds/Overdraft fees per year.
- No monthly minimum balance requirement.



2) Marketing. The marketing working group developed an outreach strategy for Bank on San Francisco. The advertising firm McCann Worldwide donated significant time and expertise to develop a Bank on San Francisco logo and tagline. Advertising materials such as brochures, paycheck stuffers, billboards, bus advertising, television and radio public service announcements, and posters were also created. The campaign is called "Everyone is Welcome." The marketing group worked hard to develop contacts and relationships with people who could be messengers for Bank on San Francisco to un-banked residents. They focused on institutions that serve or employ people who are likely to be un-banked. These include schools, unions, churches, community organizations, county welfare programs, community colleges, and businesses with significant numbers of entry level jobs.

The marketing group recognized that the un-banked face different barriers to opening accounts, and therefore segmented the market to reach each group more effectively. The working group developed two separate campaigns to target the immigrant Central-American market in San Francisco, and the African American community in the city's southeastern neighborhoods. They also developed a media strategy that relies heavily on generating press and pro bono advertising in ethnic and community newspapers, television, and radio.

3) Money management education. This group developed a set of standardized criteria for financial education classes in the city that would be certified as Bank on San Francisco approved financial education classes. The goal was to ensure that people who sign up for these classes receive consistent and culturally relevant training. EARN met with representatives of all the banks and credit unions that plan to offer money management education and made recommendations about how their offerings could be strengthened.

4) Tracking. This group works with the banks to develop a way to keep track of the accounts that are opened as part of Bank on San Francisco, and to evaluate their success by tracking account balances over time. All banks agreed to submit the following on a twice yearly basis:

- 1) The number of “Bank on San Francisco” accounts opened, and
- 2) The average account balances.

HOW DID BANK ON SAN FRANCISCO LAUNCH?

Mayor Newsom and Treasurer Cisneros held a press conference at a local community college campus with representatives of the city’s participating financial institutions. The press launch coincided with the mailing of 11,500 Working Families Credit checks, San Francisco’s local match to the federal Earned Income Tax Credit. Billboards and bus advertising went out across the city to encourage people to leave check cashers and enter the financial mainstream. In addition, banks, credit unions, and community partners launched the “Everyone is Welcome” campaign, a series of posters with five different messages targeting the demographic. Fliers were mailed to all Working Families Credit recipients and a variety of community groups and city agencies hosted Bank on San Francisco launch events across the city.

WHAT WILL BE THE KEY CHALLENGES AS BANK ON SAN FRANCISCO MOVES FORWARD?

Since Bank on San Francisco is ambitious and without precedent, there will be many challenges moving forward. These include:

- Maintaining the momentum and commitment of all the involved partners—financial institutions, city leaders, nonprofits, etc. The Bank on San Francisco team plans to convene these players on a regular basis to continuously address challenges and promote outreach opportunities.
- Reaching un-banked consumers. It will be challenging to reach these consumers with a credible message delivered by a trustworthy messenger that spurs them to action
- Gaining the needed ongoing media attention. Bank on San Francisco will most likely get press attention when it launches. The key challenge will be to spur ongoing coverage and to get donated media time and space to air Public

Service Announcements

- Keeping bank branch staff informed about Bank on San Francisco and motivated to offer Bank on San Francisco accounts. Branch staff positions can turn over regularly. To alleviate this problem, financial institutions have been urged to designate Bank on San Francisco branches to ensure knowledgeable staff are available to help clients in key parts of the city.
- A general willingness to retool approaches if they’re not working. An initiative like Bank on San Francisco has never been attempted. It will likely stumble at times. All of the partners will need to see mistakes as learning opportunities to retool and strengthen approaches.
- Doing all of the above with no ongoing dedicated funding or staff. The Bank on San Francisco team integrates their work on the initiative into their existing jobs. No additional philanthropic dollars support this ongoing effort.

WHAT ARE THE KEY LESSONS?

If you are thinking about starting something similar to Bank on San Francisco in your community, the working group recommends that you take the following steps:

- 1) Do your research. Size the un-banked market in your city. Identify the different consumer segments. Conduct focus groups to understand their needs, preferences, and how to reach them.
- 2) Reach out to national experts. The following organizations can be very helpful: The Center for Financial Services Innovation, the New Alliance Task Force at the Federal Depository Insurance Corporation; the Community Affairs office of your area Federal Reserve; the Brookings Institute; and the New America Foundation. Their contact information is provided below.
- 3) Involve a bank regulator from the beginning. The Federal Reserve Bank of San Francisco plays a key role in Bank on San Francisco. They bring their expertise and resources in partnering with and convening financial institutions. They also give Bank on San Francisco credibility with financial institutions.
- 4) Reach out to key players. Start talking with financial institutions and key nonprofits early to assess their interest and commitment to shape your effort.

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- 5) Build champions in your local political leadership. Approach your Mayor, Treasurer, and other local politicians about championing your effort. They can help bring on other partners, give your effort credibility, and attract media attention. Their endorsement can also signal to un-banked residents that your endeavor is genuine.
- 6) Reach out to leaders in your advertising community. McCann Worldwide donated significant marketing and advertising expertise along the way. They developed the logo, tagline, and all key advertising and media placement. Since reaching the un-banked market is challenging, if at all possible, enlist professionals to help you do it.
- 7) It is possible to get banks and credit unions to work together. The Bank on San Francisco team didn't know if bank and credit union staff would be open to sitting down regularly to build Bank on San Francisco. Ongoing participation has been strong.
- 8) Obtain dedicated funding and staff, if possible.

SELECT MEDIA COVERAGE OF BANK ON SAN FRANCISCO:

Banking program for low-income residents; Mayor, treasurer offer alternative to check-cashing businesses
<http://www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2006/09/29/BAGOOOF7RO1.DTL&type=politics>

Bank Accounts: a leg up for low income San Franciscans
http://www.sfgov.org/site/treasurer_page.asp?id=34898

Poor pay more for financial service, study finds. San Francisco has high concentration of check cashers
<http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2006/07/18/MNGN3K0VO41.DTL&type=politics>

San Francisco's banks launch programs to help low-income residents get their savings out from under their mattresses.
<http://www.kalwnews.org/WealthAndPoverty.html>

"The Un-banked" by Anne Stuhldreher. National Public Radio
<http://www.kqed.org/epArchive/R510030737>

RESOURCES AND KEY CONTACTS:

Community Development Departments of the Federal Reserve System. These departments promote the active engagement of depository institutions in

traditionally underserved markets for credit and other banking services. Go to <http://www.federalreserve.gov/otherfrb.htm>, click on the Federal Reserve in your region, and then click through to their Community Development Department.

The Brookings Institute Metropolitan Program. The Metropolitan Policy Program was launched in 1996 to provide decision makers cutting-edge research and policy analysis on the shifting realities of cities and metropolitan areas.
<http://www.brookings.edu/metro/metro.htm>
Contact Matt Fellowes at MFellowes@brookings.edu.

The Center for Financial Services Innovation. Acting as a hub for research, partnerships and change, CFSI helps pioneering institutions both large and small to better serve underbanked consumers across the economic, geographic and cultural spectrum.
<http://www.cfsinnovation.com/index.php>

New Alliance Task Force. The New Alliance Task Force is a partnership between the FDIC, the Mexican Consulate, banks, community-based organizations, federal regulators, the secondary market, and private mortgage insurance companies. The partnership has opened 50,000 new bank accounts totaling \$100 million. For more information on the New Alliance Task Force efforts, see "Linking International Remittance Flows to Financial Services: Tapping the Latino Immigrant Market," by Michael A. Frias, Supervisory Insights, Federal Deposit Insurance Corporation, Winter 2004,
http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/latino_mkt.html.
Contact Michael Frias at MFrias@fdic.gov.

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