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Going "De Novo": Tapping into Emerging Markets at the Branch Level

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Introduction

The financial services landscape of low-income communities is often dominated by "fringe" financial services, including check cashers, payday lenders and pawn shops. However, mainstream financial institutions are increasingly learning that there are "emerging markets" in low-income neighborhoods, and that opening a bank branch in an underserved area can translate into profitable business, not just Community Reinvestment Act (CRA) credit. In fact, the industry as a whole has seen a revival of branch systems as a way to generate retail growth. According to a research study by Booz Hamilton, up to 90 percent of customer relationships are won or lost in branches. Moreover, the study found a high correlation between the number of branch visits and total sales.[1] There are wins for consumers as well; research has shown that bank branch presence not only offers better access to mainstream financial transactions, it also can positively affect mortgage originations, mortgage terms, and access to small business loans.

The purpose of this paper is to review what financial institutions are doing at the branch level to reach new markets, and to explore how these strategies might be replicated in low and moderate-income communities. Many banks, regardless of size, have developed marketing strategies that have effectively engaged community members and helped new consumers–many of them youth, immigrant, or low-income–access the financial mainstream.

The paper is organized as follows. First, we examine trends in branch openings and closings in Los Angeles to set the context for the discussion. Second, we examine comprehensive efforts by Wells Fargo and Bank of America to develop new markets in two Los Angeles neighborhoods, Pacoima and Westlake. These initiatives provide insights not only into how to build a successful bank branch in an emerging market, but also into how to help "grow" that market by investing more broadly in the neighborhood. Third, we briefly describe other bank efforts to tap into new markets at the branch level–from opening a branch in a high school to providing check cashing services and other products to meet community needs.

Summary of Findings

Several findings from this review stand out. First, while our initial intent was to quantitatively measure the economic impact of locating a bank branch in a low-income neighborhood, we were unable to find empirical data demonstrating that investments by a bank served as a catalyst for wider neighborhood revitalization. In addition, financial institutions are rarely the first to step into uncharted territory, and are more likely to consider a new branch in a neighborhood that has demonstrated market potential and strong nonprofit partners. These are critical in terms of making the bank branch a success.

Second, in our interviews, bank representatives noted a number of challenges to providing bank branch services in low-income communities. While new branches, on average, take between three and four years to become profitable, those in low-income neighborhoods often take longer. To enter these markets, banks must be prepared to invest in a long-term growth strategy that may take several years to turn a profit. What's more, executing a "*de novo*" strategy involves more than bricks and mortar. Some of the key challenges in establishing a new branch include recruiting and training employees, developing a menu of retail products, and designing local marketing campaigns. Despite these barriers, however, financial institutions are increasingly looking to "emerging markets" as an area of potential growth. The strategies highlighted in this paper range from comprehensive efforts to focusing on a specific population segment to changing the layout and décor of a physical branch. Looking across these initiatives, the core elements for success include:

Understanding the market. Financial institutions rely on comprehensive feasibility studies to determine the socioeconomic profile of the target market, taking into account characteristics such as population growth, age distribution, income and housing trends, and the business environment. Each characteristic is important in determining whether the market will support a new branch.

Tailoring products to a niche market. Not unlike making ethnic and culture-specific foods available in grocery stores, banks are increasingly tailoring their product mix to address the financial services needs in "micro" markets. In low-income neighborhoods, some banks have developed check-cashing, short-term loan, and remittance products to reach new customers, with the hope of graduating them to other products over time.

Providing value-added services. In low-income areas, customer service models often have to engage customers in ways that differ from those in bank branches in higher income neighborhoods. For example, branches often need to accommodate different work schedules, and stay open seven days a week or into the evening hours. Front-line employees must be familiar with the culture and language of neighborhood residents, and "add-on services," from dog biscuits to financial education classes, are often critical to success.

Third, efforts to engage financial institutions in reaching the "unbanked" market are moving into the policy realm, and local governments are looking for new ways to provide incentives for banks to offer products and services in traditionally underserved communities. Interviewees noted that incentives can make the difference in deciding whether or not to open a new branch in a low-income community. These incentives can center on any of a number of needs that banks have:

- Banks often need help understanding the market potential in low-income neighborhoods. Helping to fund a Social Compact type analysis, for example, can provide information about the longer-term market potential of these neighborhoods. Cities also have access to parcel data on property values; an analysis of changes in property values in the target neighborhood can help to identify a neighborhood that may be transitioning from low- to more middle income.
- Since branch profitability is a key concern, efforts to help subsidize early years of operation are critical. City or other government deposits in a branch can help to meet early profitability thresholds. One interviewee noted his support of legislation creating "banking development districts", since the amount of deposits a de novo branch receives is important in determining its viability. Few banks can afford to maintain a branch that will take five years to generate a profit.
- City and county governments can also be instrumental in helping to build support among businesses and nonprofit organizations in the community, and help the bank build relationships with community partners. For example, a city can help to identify workforce development organizations that could serve as partners in creating a pipeline for new bank branch employees–with the added benefit of having these new employees come from the community. Having the mayor or another local public official show outward support of the branch and "introduce" the bank to the business community can also provide an incentive for the bank.

Fourth, while banks' efforts to reach underserved markets receive CRA credit, this is not the primary motivation for the initiatives profiled in this report. As some critics have pointed out, the CRA service test provides less of an incentive for banks to reach out to unbanked and underserved populations through branches than the lending test provides for loans. Current CRA regulations assign a bank twice as many points–a total of twelve–for an outstanding rating under the lending test as for the investment and service tests (six points each). Michael Stegman and his colleagues, for example, have argued that extending financial services to underserved populations is consistent with the statutory purposes of the CRA, and suggest that the service component of the CRA be strengthened. Stegman writes, "Just as CRA lending requirements have helped banks recognize the market potential for home loans in low- and moderate-income areas, a strengthened service test would facilitate the development of new markets, products, and technologies to help banks provide profitable basic banking services for underserved populations."[2]

Finally, the review also identified several organizations and researchers that are focusing attention on a number of issues related to financial services:

- Center for Financial Services Innovation
- Center for Financial Access for Immigrants at the Federal Reserve Bank of Chicago
- Information Policy Institute ("Giving Underserved Consumers Better Access to the Credit System: The Promise of Non-Traditional Data." July 2005.)
- National Poverty Center
- The Brookings Institution (Barr, Michael. *Banking the Poor: Policies to Bring Low-Income Americans Into the Financial Mainstream*. Washington, D.C.: Brookings Institution, 2004.)

These research efforts, coupled with findings from evaluation research on collaborative initiatives like Bank on San Francisco, are likely to lead to a better understanding of the low-income and unbanked market and what works in helping them to access the financial mainstream.

Trends in the Los Angeles Market[3]

Bank branch openings and closures fluctuate from year to year; however, over the last five years, branch openings have increased overall. As of June 2007, 738 bank branches operate in the city of Los Angeles. This is an increase of 179 branches since 2002, a 24 percent jump within 5 years.

It is interesting to note that low-income areas have seen higher rates of branch openings than the city as a whole; in the last 5 years, 25 new branches were built in low-income areas, an increase of 33 percent. This rate of growth of new branches in low-income areas suggests that more banks are beginning to recognize the market potential in low-income communities.

However, disparities in access to bank branches between low- and high- income neighborhoods remain. Despite the recent increase in bank branches in low-income neighborhoods, there is one bank branch for every 10,388 residents; in high-income areas, there is one bank branch for every 2,924 residents. In addition, almost twice as many of the new branches built between 2002 and 2007 were located in high-income areas than in low-income areas.

Figure 1: ***Total Number of Branches in L.A.***

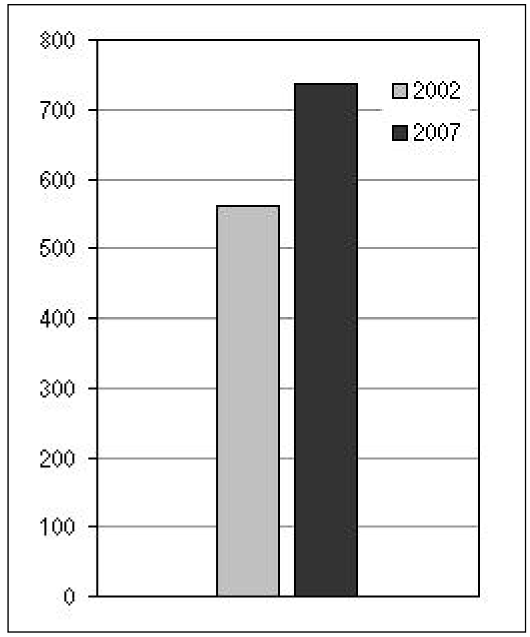


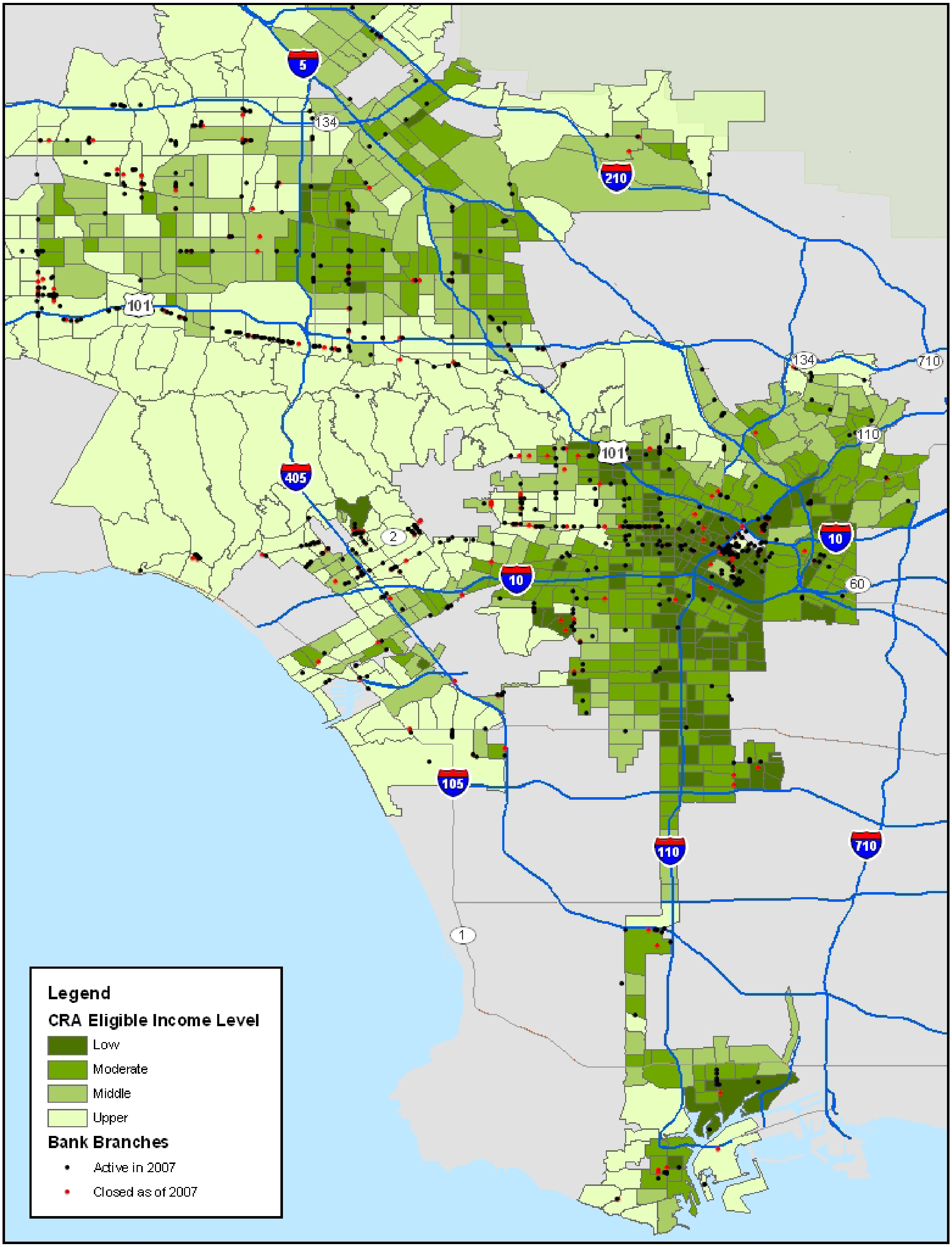
Figure 2: ***Bank Branches in Los Angeles***

	Total Population	Active Branches in 2007	New Branches 2002-2007	People per Branch
Low-Income Areas (Median Household Income less than $45,000)	955,733	92	23	10,388
High-Income Areas (Median Household Income more than $72,000)	739,812	253	50	2,924

In Figure 3, we examine the distribution of bank branches in the various Los Angeles neighborhoods.[6] These data are somewhat harder to interpret, since neighborhoods that are predominately residential may not have a bank branch presence, despite having a large number of residents–even those with high incomes. Bel Air-Beverly Crest is a good example of this.

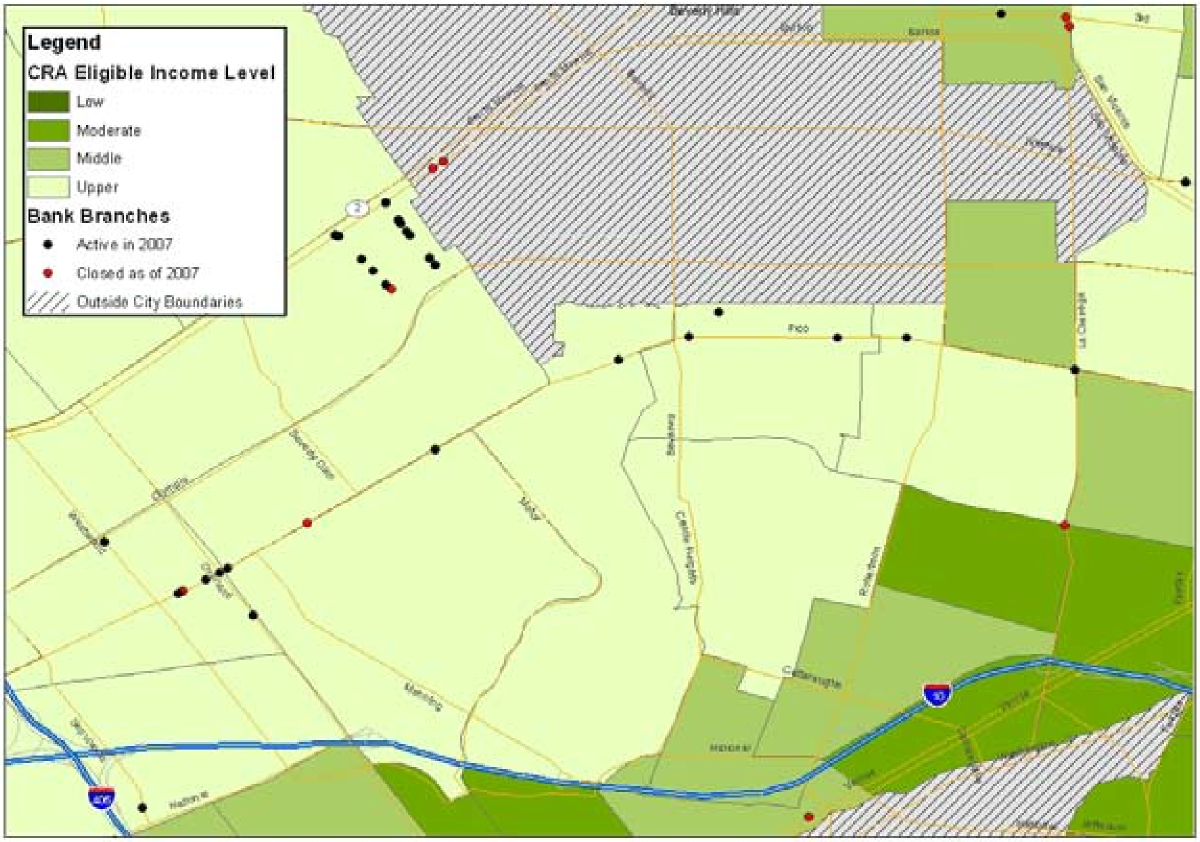
Yet among more mixed-use neighborhoods, the disparities between low-income and high-income neighborhoods are clear. For example, Southeast L.A. and West L.A. are two large urban areas within Los Angeles, with a mix of both residential and commercial zoning. West L.A., with an average household income of $75,807, has 45 bank branches. In contrast, the Southeast L.A.-Watts is home to 35,000 more residents with a neighborhood median household income half of West L.A., but has only 7 branches in its vicinity. Furthermore, only one new bank branch has been built in Southeast L.A.-Watts since 2002, while 8 new branches have been established in West L.A.

Figure 4: ***Los Angeles: Bank Branch Presence by CRA Income Designations***



Sources: FFIEC & FDIC

Figure 5A: ***West LA: Bank Branch Presence by CRA Income Designations***



Source: FFIEC

Figure 5B: ***South and Southeast LA: Bank Branch Presence by CRA Income Designations***

Source: FFIEC

Figure 3: ***Bank Branch Presence by Los Angeles Neighborhood Income Level and Racial Demographics***

Median Household Income	Neighborhood	Total Population	Active in 2007	Built in the last 5 Years	People/ Bank	% White	% Black	% Latin
$29,600	Westlake-Pico Union	130,760	22	8	5,944	4%	4%	74%
$32,000	**Southeast LA-Watts**	**140,111**	**7**	**1**	**20,016**	**1%**	**30%**	**68%**
$33,500	Boyle Heights	87,426	11	4	7,948	1%	1%	95%
$33,900	South LA	383,179	17	2	22,540	3%	31%	62%
$35,000	Central City Northeast	17,750	4	1	4,438	16%	25%	52%
$36,400	Pacoima	63,351	3	2	21, 284	4%	6%	87%
$39,000	Port of LA	1,281	1	0	1,281	27%	26%	42%
$41,500	West Adams-Baldwin Hills-Leimert	155,657	23	7	6,768	2%	55%	37%
$73,300	Granada Hills	60,038	14	3	4,288	54%	3%	23%
$75,800	**West LA**	**105,107**	**45**	**8**	**2,336**	**54%**	**12%**	**19%**
$80,400	West Hills-Woodland Hills	77,758	36	14	2,160	79%	3%	8%
$81,000	Venice	37,758	3	0	12,586	64%	5%	22%
$85,900	Sherman Oaks-Studio City-Toluca Lake	71,152	28	2	2,541	78%	4%	9%
$87,000	Chatsworth-Porter Ranch	64,088	25	7	2,564	60%	3%	15%
$90,300	Playa del Rey	14,413	1	0	14,413	72%	4%	10%
$103,500	Encino-Tarzana	66,320	43	8	1,542	78%	3%	10%
$104,300	Westwood	47,939	17	2	2,820	63%	2%	7%
$149,800	Brentwood-Pacific Palisades	65,636	27	5	2,431	83%	1%	5%
$235,000	Bel Air- Beverly Crest	20,259	1	0	20,259	86%	1%	4%

The gap in financial access in low-income neighborhoods translates to a gap in financial access for minority neighborhoods as well. Figure 3 illustrates this. The eight low-income neighborhoods in Los Angeles designated for this analysis are largely comprised of ethnic minority residents.

While this analysis is only descriptive in nature, it does suggest that there is both the need and the potential for more branches to be located in the low-income neighborhoods in Los Angeles.

Going "*De Novo*": Emerging Markets Initiatives

The willingness of banks to open branches in new neighborhoods has been prompted not by the CRA, but rather by a widespread shift in perception: low-income neighborhoods are being viewed less as charity cases, and more as untapped, "emerging markets." Key among these "emerging markets" are immigrant populations–especially Latinos, who tend to live in geographic areas with few or no bank branches. To reach immigrant markets, however, banks must develop products and services that meet local customer needs and construct new delivery systems to reach residents.

A Los Angeles-based consulting firm, Emerging Markets, Inc.,[6] has conducted research into these markets and has developed strategies for effectively reaching underserved communities. This model moves away from a 'bricks and mortar' approach to a new branch and instead integrates the new branch with other CRA loans, grants and investments in a neighborhood. In the Emerging Markets model–called a "Neighborhood Delivery System"–banks target a neighborhood and both work with and invest in a handful of strategic nonprofit partners in that area, rather than giving small amounts of funding to a large number of dispersed grantees. Emerging Markets, Inc. led both Bank of America's and Wells Fargo's strategies on how to develop a comprehensive community development approach to the neighborhoods in the City of Los Angeles.

Wells Fargo: Pacoima

Wells Fargo established this type of place-based "emerging markets initiative" in Pacoima, a low-income immigrant community in Los Angeles' San Fernando Valley, and opened Pacoima's first new bank branch in 17 years.[7] Although the need for CRA activity and political concern over the financially underserved in Pacoima were motivating factors in branch considerations, research into the area's market potential served as the catalyst in Wells Fargo's decision to build a branch in the neighborhood. Wells Fargo examined the area's projected demographic growth and used nontraditional research to gain an understanding of the significant buying power of the neighborhood.

According to Jerry Ruiz, former Senior Vice President of community development at Wells Fargo in downtown Los Angeles, these numbers are critical for getting approval to build a new branch. He notes that when it comes to *de novos* in low- and moderate-income communities, senior management wants to see that a low-income community is progressing toward becoming a moderate-income community. Only then is it seen as a good investment.

Ruiz pointed out that *de novo* branches are typically expected to break even within two years of opening, yet often this is not feasible in emerging markets. For the planning of the Pacoima store, Wells Fargo decided to extend this timeline to three years. Wells Fargo worked with Emerging Markets, Inc. to shape the strategy for the new branch, and developed an approach that tackled both the "soft" and "hard" barriers immigrants face in accessing mainstream financial services.

For instance, distrust of banks is a significant issue within the Pacoima's immigrant community, and Wells Fargo employed innovative, grassroots community outreach strategies to build relationships with community members. For example, Wells Fargo:

- Reached out to parents through schools by sponsoring potluck-style workshops, opening accounts on school grounds, and training parent school leadership on how to give financial literacy workshops;

- Reached out to small businesses through a local economic development center and capitalized its micro-loan fund, resulting in 16 small businesses obtaining start-up funding.
- Opened accounts in a church courtyard in conjunction with a Matricula ID enrollment campaign; and
- Partnered with a local housing counseling provider to reach current and potential homeowners.

In addition to community outreach, Wells Fargo targeted its grant making in Pacoima toward enhancing the overall economic productivity of the neighborhood. Grants were made to support youth academic programs, employment programs, and social service agencies providing food and clothing for families.

These approaches surpassed expectations and the store actually grew deposits to $10.9 million in just two years, ahead of schedule. By the beginning of its fifth year in existence, the Pacoima store held more than $20 million in deposits.

According to Ruiz, what made the Pacoima project successful and unique was the formation of a working group led by the Regional President and comprised of a wide range of departments in the bank that usually work in isolation from one another. This joint effort to strategize specifically about Pacoima kept the needs of the community in focus and allowed for a multi-pronged approach to making the store a success.

Wells Fargo has since replicated this strategy in another underserved neighborhood in the city of Compton. Unlike Pacoima, however, Compton had few nonprofits working within the neighborhood. Rather, the local churches were the main community development stakeholders in the area. Despite the lack of traditional community development infrastructure, Wells Fargo decided to enter the community; indeed, the bank targeted its grants in ways that would support the development of this infrastructure. For example, Wells Fargo met with the Compton business community and connected them to successful "Chamber of Commerce" models from other cities, with the intent of helping them organize businesses in the community. Wells Fargo also developed a loan capital pool in partnership with a micro-enterprise nonprofit to help make small business loans.

Bank of America

Bank of America has also worked with Emerging Markets, Inc. to initiate a comprehensive, place-based approach to its community development activities. In 2001, Bank of America launched its "America–Block by Block" initiative in Westlake,[8] a low-income, mostly immigrant community in Los Angeles. Although Bank of America already had a branch presence in Westlake, the "Block by Block" initiative was designed to better tailor the bank's activities to the needs of the community.

Bank of America has been working in the community in multiple ways. As with other banks going into new, low-income neighborhoods, Bank of America's marketing strategies have been more grassroots-oriented than traditional bank marketing campaigns.

- Bank of America has worked through community-based organizations and door-to-door campaigns to build trust and relationships with community residents.
- In addition, recognizing that children act as language brokers for their parents conducting financial transactions, Bank of America wanted to ensure that youth were financially literate. Through a partnership with LA Unified School District and Junior Achievement, over 100 Bank of America employees taught 2000 students about managing personal finances. Plans are in the works to partner with the Affordable Housing Management Association to reach out to youth in their home environments.

- Bank of America has also worked to “grow the market” by investing in workforce development and affordable housing initiatives in Westlake. Bank of America made grants to three local non-profits that offer language classes, computer instruction and other workforce training activities. The goal of these investments is to help Westlake residents obtain more stable employment and raise incomes in the community.
- Bank of America also created an “employment pipeline” that steers workforce development program graduates into job opportunities at the bank; these positions offer benefits and also provide opportunities to build a career within the bank.

Bank of America also developed a targeted strategy for its small business and affordable housing lending in the Westlake community. In the area of small business, the branch conducted an intensive outreach campaign highlighting Bank of America’s SBA products. However, most of the businesses submitting applications as a result of the campaign did not qualify for bank loans. Bank of America investigated why applications were being denied and partnered with local small business nonprofits to hold workshops on how to successfully apply for loans and credit. Over the 5 year period, this collaborative approach resulted in over 500 business accounts opened and more than $70 million in small business loans and commercial loans and lines of credit. Bank of America has also made several affordable housing construction loans in Westlake, helping to fund seven developments resulting in 518 affordable housing units. Bank of America has also worked to ensure that new market-rate development proposals included efforts to build additional affordable housing for the low-income residents of Westlake. This model has also been replicated in two other low-income Los Angeles communities, Boyle Heights and Vernon Central.

Product Innovations

To be successful in an “emerging market,” particularly one that caters to low-income and immigrant community members, financial products must be targeted to the needs of the community. Increasingly, banks are providing new products and services that better match the financial needs of low-income households, such as offering remittance products, check cashing services, or small dollar loans. While not all products may be profitable, they can often serve as a “loss leader” and help to create loyalty among customers, encourage repeat visits, and allow customers to grow into more profitable products for the bank.

Targeting the Unbanked through Check Cashing Services

A recent study showed that in 2005, an estimated 5.2 million Californians used check cashers and paid at least 2 percent of their annual income in check cashing fees–a market of approximately $4.9 billion a year.[9] In addition to the money spent on check cashing fees, relying on these alternative financial services can prohibit low-income families from developing a relationship with a bank and building their assets over time. Focus groups with the unbanked have identified a number of reasons why consumers pay the high fees associated with check cashing. The transparency of check cashers is a key benefit. Customers are often discouraged by the unexpected fees that accompany a bank account, such as the fee for a bounced check or dropping below minimum balance requirements. Check cashers also do not require a clearance period, so the cash is received immediately. Check cashers also offer services that banks may not. For example, some offer remittance products that include a free phone call to the recipient to reassure the customer that the money has arrived. In addition, for those on ChexSystems, there are few options other than to use the services of check cashers in their communities.

KeyBank, in an effort to reach consumers who rely largely on check cashers for their financial transactions, developed a strategy that aims to help check cashing customers build a relationship with and shift toward using mainstream financial services over time.[10] KeyBank has been able to overcome the initial distrust many check cashing customers have of financial institutions by providing services that they are already using and are comfortable with.

To reach those consumers who are solely seeking cash checking services, Key Bank has developed its own check cashing product line available to account-holders and non-account holders alike. The product, KeyBank Plus, costs $5 for enrollment and an additional 1.9% fee for check cashing services. A "checkless" account is also available for those who choose to establish payroll direct deposit-- the enrollment fee is waived but the check cashing fee still applies. This account loads deposits onto a debit card and allows customers to both access their funds through ATMs and use online bill pay. For those who are working to get off of ChexSystems, these products allow a gradual transition back to more traditional bank services.

KeyBank employed several customer service strategies to ensure that check cashing customers have a positive experience and to encourage them to "grow" into customers that use a wider range of products. First, in order to make their branches less intimidating, KeyBank decorated branch buildings targeting immigrant communities with colorful murals and other artwork. KeyBank also retrained their tellers to value and respect check cashing customers who may have had strained relationships with banks.

KeyBank has also created a Financial Literacy Center located adjacent to the Buckeye branch in Cleveland where customers can learn how to manage their accounts and take classes on buying a home or starting a small business. This Center offers both group workshops and individual counseling. They can take the Get Checking classes and qualify for a new checking account. The classes and counseling are provided through a contract with the WECO Fund, Inc, a non-profit financial literacy and education programs provider. KeyBank has found that although the center is a foundation for providing financial education to the community, providing workshops at trusted locations like places of worship and schools remains an important strategy for reaching out to community members.

KeyBank has seen great success through these efforts; in the past 2 years, KeyBank has opened more than 10,000 accounts for former check cashing customers. The product itself has also been successful; in the last two years, KeyBank has cashed 35,000 checks totaling over $24 million dollars.

Small Dollar Loans

In addition to check cashing and remittances, payday loans are also in high demand among low-income and immigrant consumers. Many consumers turn to high-cost, non-bank lenders because they are accessible and can quickly provide these loans. Yet, the inability to repay these short-term, high-cost credit products often leads to costly renewals and exacerbates a customer's difficulties in meeting cash flow needs. Concern over the costs of payday lending have led some states and municipalities to limit or ban payday lending. Twelve states have moved to eliminate payday lending by enforcing relatively low interest rate caps: Arkansas, Connecticut, Georgia, Maine, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Vermont, and West Virginia.[11]

Four cities in California–Sacramento, National City, San Francisco, and Baldwin Park–have as of March 2008 placed permanent moratoriums on the establishment of new payday lending outlets (Los Angeles and Chula Vista are considering such moratoriums) and Oakland passed an ordinance limiting the concentration of payday lending outlets in certain neighborhoods. However, as a state, California continues to allow payday lending.[12] As a result, many consumers are still relying on high cost payday lending outlets for short term, unsecured loans.

For banks and credit unions, providing alternatives to the payday loan product can be an effective way of attracting new customers and helping them move up the financial services ladder. Known as "small dollar loans," these loans are generally made available at lower interest rates than at payday lending outlets, and are often coupled with financial education and asset building efforts.

The banks that have been most successful in this regard have taken on a multi-faceted strategy that incorporates small dollar loans as one part of multiple-account relationship, and often includes financial education, workplace financial services, individual development accounts, foreign remittances, and other services.

A number of institutions have developed affordable small-dollar credit programs with annual percentage rates (APRs) that range between 12 percent and 32 percent with no or low fees. The Mission SF Federal Credit Union (MSFFCU), for example, offers 3-6 month term loans of $300-$500 at 15-18 percent APR. The loan is accompanied with a one time fee that is waived if the customer attends a financial education class. In addition, if the customer pays the loan within the timeframe of the term, MSFFCU will deposit $50 into a savings account.

In June of 2007, the FDIC provided guidance that encourages banks to offer an affordable alternative to high-cost small-dollar consumer loans. The FDIC is encouraging lenders to offer products with reasonable interest rates and fees, such as an APR no greater than 36 percent (compared to the 459 percent that is typical for many payday loans), an origination fee no higher than is necessary to cover actual origination costs, and no or low annual fees, membership fees, advance fees, and prepayment penalties. It also recommends that repayment schedules pay down the principal balance of the loan, and that the product should incorporate a savings component. For example, the borrower could be required to set aside a percentage of the principal amount of the loan in a savings account or deposit a portion of the regular payment into a savings account.

Offering these types of lower cost alternatives to short term dollar loans is viewed favorably under the CRA. To further encourage banks to develop alternatives, the FDIC approved a two-year pilot project, known as the Affordable and Responsible Consumer Credit (ARC) initiative. Some of the key features of the pilot will include loan amounts of up to $1,000, mandatory savings components, payment periods that extend beyond a single pay cycle, interest rates below 36 percent, low or no origination fees, no prepayment penalties, prompt loan application processing, and access to financial education to help with asset building. Participating financial institutions offering these products in a safe and sound manner may receive favorable consideration under the Community Reinvestment Act (CRA). In order to participate, banks would have to be highly rated, well-managed, well-capitalized and confirm that their proposed product meets consumer credit needs at a reasonable cost.

Bundled Services and Products

The third lesson that banks are learning from alternative financial service providers is the need to "bundle" multiple products and services to attract and retain new low-income and immigrant consumers. Mitchell Bank, a community bank serving a predominately immigrant community in Milwaukee (see below), has developed a suite of products and services to draw in new customers. The range of offerings include:

- Acceptance of the ITIN and alternative forms of ID, such as the Matricula card, for opening accounts. In addition, Mitchell Bank employees can help new customers apply for the ITIN or the Matricula card;
- Five different remittance products, including the very low cost Directo a Mexico product;
- A special loan product–the "New American Loan"--that is intended to be used for citizenship application fees. This product is particularly responsive to the recent increases in the citizenship application fee;
- A short term dollar loan through the FDIC's "Affordable and Responsible Consumer Credit (ARC)" pilot initiative;
- Prepaid debit cards which can be linked to remittance products; and
- Dual ATM bank accounts. This account provides customers with two ATM cards allowing them to give one ATM card to a relative, granting access to the account from another state or country. The cost is 2 dollars per transfer.

Bank Branch Innovations

Before the recent era of bank consolidation and technological advancements, bank branches were important institutions within the community. While the early 1990s saw a decrease in bank branches–particularly with the proliferation of ATMs and online services–the recent focus on the branch and a wave of *de novo* branches has returned attention to how to create a welcoming environment at the branch level. Well designed branches can help to create a better customer service experience, and help to overcome trust or discomfort barriers that exist face some customers.

The previously cited Mitchell Bank has tailored all of its products and business lines to cater to the neighborhood's Latino immigrant population. All employees–many of whom are Latino and who live in the neighborhood themselves–are bilingual, branches all have banners in Spanish welcoming customers, and all materials and product advertisements are provided in Spanish as well as English. As we describe below, Mitchell Bank has also taken the innovative step of opening a bank branch in a high school.

Some bank branches, like KeyBank's, have established a resource center approach that provides additional services such as classes on topics such as managing debt, savings, or how to transition from banking paycheck-to-paycheck to accumulating wealth. This approach allows customers to be easily referred to a class or special seminar to address their needs. The center creates the resources to reach into communities to provide education on site, creating a link and point of trust to bring community members into the resource center and then into the branch.

Other banks are looking to focus their physical design, layout, and services to meet the cultural expectations of local communities. This "micromarket alignment" is typically driven by age and income, and incorporates such factors as area population concentration, branch proximity to business centers, and customers' ethnicity. Achieving this alignment drives decisions regarding branch staffing, skills, product configurations, and customer sales/retention targets.

For example, Paramount Bank moved into a known artist's community in Michigan and hoped to add to the community by designing the branch's front end as a gallery space. It hosts monthly exhibits prepared by the gallery's curator. Washington Mutual rethought the use of their branch space and developed the "Occasio" model that incorporates bright colors, comfortable furniture, and most importantly, a children's play area equipped with books and toys as a service to parents who conduct their financial business in-branch. Meanwhile, some bank branches located in communities where pets accompany their owners on their errands have a pet rest area with doggy treats and a water bowl.

Other banks have constructed meeting space in their *de novo* branches and have offered the site to organizations in their communities for meetings and other trainings. Most have secure, separate entrances so they can be used on nights and weekends. This service is offered free or at a low cost; proceeds are often donated to a non-profit of the organization's choice.

Reaching Youth through High School Branches

Another emerging strategy–one that is increasingly gaining attention in urban, immigrant settings–is to open a bank branch in a high school. This strategy allows banks to reach young adults and teach them financial management skills, while at the same time attracting new customers. Most of the 'in school' branches have been established by credit unions and community banks looking to stay competitive by attracting more local customers. But some large banks are starting to pursue a similar strategy. Activities within these branches contribute to education and community development efforts, and serve to develop the financial literacy skills not only of young adults, but of their parents as well.

One successful example of this strategy is a partnership between Mitchell Bank, a community bank, and South Division High School in Milwaukee, WI. In the 1990s, the demographic that Mitchell Bank served shifted from a Polish immigrant community to a working class, Latino immigrant community.

After assessing the banking needs of the neighborhood through a community forum, Mitchell Bank partnered with South Division High School and opened a branch– known as Cardinal Bank– on its campus in 2000.[13] In the planning stages of the branch, Mitchell Bank knew that they wanted the branch to be fully functioning rather than just a "play bank." This would enable them to comprehensively educate students about the functions of a financial institution and allow the opportunity for new accounts to originate on campus. As such, Cardinal Bank is a fully-serviced branch that offers loan products, account and remittance transactions, and other standard banking products. Bank business is driven by students, faculty, school maintenance, and other supportive staff.[14] Over Cardinal Bank's 7 years in existence, 800 new accounts have opened.

However, accounts are only one goal. Another important part of Cardinal Bank's mission is to develop financial literacy among students and to help them build a foundation for future financial security and asset building. To this end, Cardinal Bank has become fully integrated into the curriculum of the school's Finance Asset Management Economics (FAME) Academy (South Division High is split into 4 smaller schools, of which FAME is one.) This exposure to finance has given many students the incentive and aspiration to apply to college and further their studies in finance. In addition, students have the opportunity to build their leadership skills. Not only working as tellers and bankers, the 10-12 low-income students who work in the bank also serve on the branch's board of directors or are elected as marketing directors, setting the semester's marketing and activity plan to be carried out on campus. Student bankers also make financial literacy presentations and teach workshops to their peers, including elementary and middle students attending schools that feed into South Division High.

Staff from Mitchell Bank's main branch also offer workshops to community members on first-time home buying, financial literacy, and accessing credit. The best attended workshops sponsored by Mitchell Bank are those focused on immigrant rights information facilitated by an immigration lawyer who answers general questions about immigration. The sessions also provide information about how immigrants can access credit, a bank account, and other financial services. Bank representatives are on hand to answer questions and to open accounts for interested community members.

The partnership with South Division high school has enabled greater access to Mitchell Bank's target community, and offers a "trusted" avenue for the bank to disseminate information to parents and students. The student-run branch has provided a hands-on approach to learning, and has provided vocational training for students and developed positive banking relationships with immigrant parents, many of whom were unbanked. By having a branch linked to the daily routine of young people and their families, this site-based approach has bridged the gap between youth and financial services in this community and has also made access to credit and low cost financial services readily available.

Conclusion

In Los Angeles, there exists a clear opportunity to extend mainstream financial services to new "emerging" markets. As the descriptive analysis in this paper shows, many low-income communities remain underserved by bank branches. This report has identified ways that banks have made progress not only in building *de novo* branches in LMI communities, but also in developing innovative products and local strategies to reach emerging markets. As the above examples demonstrate, in many LMI areas it is not simply the presence of a bank branch that draws new customers. Rather, active efforts on the part of banks to develop non-traditional opportunities to engage new customers and help them understand the benefits of a banking relationship are needed. These measures can provide both short and long-term benefits to banks and to low-income families and their communities.

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1 Paul Kocourek, Aditya Bhasin, and Paul Hyde, "A Better Way to Make Branch Banking Pay," Booz Hamilton 2004.

2 Stegman, M., Cochran, K., and Faris, R. (Fall 2002). "Toward a More Performance-Driven Service Test: Strengthening Basic Banking Services under the Community Reinvestment Act." Georgetown Journal of Poverty Law and Policy, p. 4.

3 Data from FDIC, 2001 and 2007.

4 The median household income in Los Angeles is $36,687 (2000). To calculate the low -income threshold, we used the 120% of the median income and below. "High Income" areas are neighborhoods with at least 200% of the median household income. Middle income areas are areas with median incomes that fall between low income areas and the high income areas.

5 Neighborhood designations were adapted from Leticia Rodriguez. "A Report on Check Cashing Establishments in Los Angeles." Van Nuys: Valley Economic Development Center. 2005.

6 For information, visit www.emergingmarkets.us

7 To read more about the concrete outcomes of this initiative, please read the Emerging Markets Initiative in Pacoima Brief prepared by Emerging Markets, Inc. See also: http://www.frbsf.org/publications/community/investments/0602/place.pdf.

8 To read more about the concrete outcomes of this initiative, see "America Block-By-Block Initiative: Westlake" prepared by Emerging Markets, Inc. For more information on the initiative, contact Al Arguello, Senior Vice President of Community Development Banking, Bank of America, at Alfred.j.arguello@bankofamerica.com or 213-621-4825.

9 The Financial Divide: An Uneven Playing Field. March 2005. San Francisco: California Reinvestment Coalition.

10 See Jennifer Tescher, Edna Sawady, and Steven Kutner. "The Power of Understanding the Underbanked Market." Center for Financial Services Innovation, 2007. Nancy Feig. "Key Bank brings the Unbanked into the Bank" Bank Systems & Technology. Jan 01 2007, and Center for Financial Services Innovation. "Success Story: KeyBank Plus." Or contact Michael Griffin at Michael_B_Griffin@KeyBank.com.

11 Resource Guide: Curbing Predatory Lending. CFED: Washington, DC. 2007.

12 Ibid.

13 For more information on how to develop an in-school bank branch, see A Guide to Establishing Bank Branches in High Schools, http://www.povertylaw.org/advocacy/publications/bank_branches_guide.pdf Or contact Dory Rand, Sargent Shriver National Center on Poverty Law, 312-263-3830 or James Maloney, Mitchell Bank Chairman, 414-277-9080.

14 South Division High School has over 1800 students and a large staff, providing a ready market for the bank.

COMMUNITY DEVELOPMENT

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