FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 15, Issue 3
CI Notebook: What Do You Know About the Unbanked?

Author(s): Lena Robinson, Community Affairs Specialist, Federal Reserve Bank of San Francisco
November 2003

What many of us in community development know is that there are reportedly 10 million unbanked households in the U.S. What remains somewhat unknown is how to meaningfully reach these households and appropriately transition them into profitable bank customers. This issue of *Community Investments* looks at some of the successful ways this market is being reached and served.

Before you roll your eyes at reading yet another article about unbanked and underserved markets, take a moment to answer the following questions. These questions are intended to illustrate some methods for identifying characteristics of populations that are more likely to be unbanked and the market opportunity they represent. Your responses may help you realize if you know as much as you think about this significant population that has the potential to increase your institution's market share.

- What is the most common reason cited among unbanked households for not having a checking account?[a]
- Where can you obtain information about the banking habits and financial characteristics of U.S. families?[b]
- At what rate per day is the number of immigrants growing?[c]

- What is the estimated annual fee revenue on foreign remittance transactions?[d]
- Where can you find data about the number of non-English speaking households by city?[e]
- What is the income cutoff for a family of four to receive the Earned Income Tax Credit?[f]

In the pages that follow and on our website we have compiled interesting stories about products, services and programs targeted to unbanked and underserved consumers. We hope that these stories will reveal the rewards that can come from providing the right services to the right markets and will refresh your interest in banking the unbanked.

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[a]Do not write enough checks
[b]The Survey of Consumer Finances produced triennially by the Federal Reserve Board
[c]3,000
[d]Approximately $12 billion
[e]American Factfinder section of the U.S. Census Bureau
[f]$33,178

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 15, Issue 3 Serving Untapped Markets

Author(s): Lena Robinson, Community Affairs Specialist, Federal Reserve Bank of San Francisco

November 2003

Immigrant, unbanked, underserved, emerging, untapped: labels used to identify different segments of a large potential market. Are there any real distinctions, and if so, what are they? If the diversity of the terms is any indication, these potential customers may be as difficult to label as they are to serve. We try to define these markets and how to serve them in this issue of *Community Investments* because untapped markets can be significant to the business capacity of the banking industry and perhaps the economy overall.

In identifying a potential market, labeling may be the easiest part. The hard part is getting beyond the label to a quantitative value of the return on investment for pursuing a new market. Labeling should be thought of as the first step and perhaps the most critical step towards clarifying the appropriate strategies, partners, products and services.

Following are a few definitions intended to distinguish the labels and clarify their nuance.

Unbanked: a consumer without an active checking or savings account
Underserved: a consumer with a checking or savings account who may be ready for more sophisticated products such as an investment account or a credit account
Emerging: potential candidates for significant financial commitments such as homeownership or small business loans
Immigrant: underserved, unbanked or emerging customers that are not native born and may be unresponsive to mainstream outreach or marketing efforts
Untapped: the revenue potential associated with any of the above market niches

"In the Search for New Customers, Start Here," James Ballentine asserts that immigrants, or newly arriving Americans, are increasing at a rate of 3,000 every day. His article outlines a six-step process for attracting new immigrants or working with existing minority populations. This article is excerpted from a handbook entitled, "Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans," which describes successful strategies for working with immigrant communities.

Step five of the above-mentioned process talks about the need to tailor effective products. Ronald Rawson illustrates this step in his article, "The Keys to the Kingdom of Financial Empowerment for the Unbanked," which describes an innovative partnership that is enabling migrant workers in

California's Central Valley to safely and economically handle their financial transactions.

While language and national origin are neat ways to categorize and target potential immigrant customers, the task becomes far less clear cut with a category such as the unbanked. Perhaps the single most significant barrier to serving the unbanked is finding them. Three stories illustrate the value of grassroots outreach and community involvement for overcoming this obstacle. In his article, "Providing a Headstart with CRA," Brian Scrip provides a compelling and innovative example of how to make connections with low-income populations and how to begin a dialogue about financial service needs.

Connecting with a local site that provides volunteer income tax assistance (VITA) is another way to find the unbanked. Every year, the Internal Revenue Service trains volunteers to prepare basic tax returns for low-income individuals. In addition to helping poor taxpayers keep more money in their pockets, this service saves many of these taxpayers from the scourge of predatory "rapid refunds." There is a national effort underway to create relationships with local financial institutions to open accounts for the many unbanked customers who otherwise rely on check cashers or pawn shops to cash their tax refund. Ana Marie Argilagos's article, "Reclaiming Native American Tax Dollars," will help you learn more about the VITA effort in Native American communities and beyond.

Supporting community-based financial institutions is yet another mechanism to ensure that consumers who want bank accounts but do not have access for various reasons are served. Notwithstanding the convenience and ubiquitousness of electronic banking platforms such as ATMS, the lack of a local financial institution may deter some consumers from opening an account. Other consumers may be shut out due to past transgressions. Increasingly, community-based financial institutions—such as People's

Community Partnership Federal Credit Union in Oakland, California—are opening their doors to address these concerns in low-income neighborhoods across the country. Maeve Elise Brown discusses the process of creating "A Credit Union from the Ground Up" and the positive impact it is having for the area's unbanked.

Underserved and emerging consumers present a different set of complications beyond just locating them. Issues such as the modest amount of money they may have to invest or desire to borrow and the high cost of providing these products to them is a challenge for traditional banks. Intermediaries and innovative products such as those described in "Investing for Social Good and Investing For 'The Little Guy'," offer solutions.

In "Investing for Social Good," Kerwin Tesdell and his associate Charity Shumway provide an update on how the community development venture capital industry is helping emerging entrepreneurs capitalize their businesses and share details about the first investment made by Central Fund, CDVCA's own fund. Developing a small business is one way that individuals seek to build assets, another is portfolio investing. "In Investing For 'The Little Guy,'" Mark Maruyama introduces us to a new approach that is helping small dollar investors afford a piece of the pie.

Somewhere among these stories may be just the idea you need to serve a special niche in your geography. Each of these articles offers something that can be adapted or adopted to realize the potential of untapped markets.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 15, Issue 3
In the Search for New Customers, Start Here

Author(s): James Ballentine, Director, ABA Housing & Community Development
November 2003

Reprinted from the *American Banker*, August 1, 2003.

One group of potential new bank customers is growing at the rate of about 1 million a year. They're not new babies or recent college grads. They're America's immigrants, and nearly 3,000 arrive here every day to join America's 33 million other immigrants who are making America their home.

They're not just the customers of the future. For banks that act strategically - and quickly - these are today's customers. In fact, to ignore America's burgeoning immigrant population is to miss a market opportunity that includes many men, women, children, families, small business operators, skilled artisans, laborers, professionals and many more who value home ownership and need banking services to help make their dreams come true.

Combined with America's already considerable minority population, these new Americans represent a still largely untapped source of future customers. Consider these facts, for example:

- Immigrants are three times as likely as all U.S. adults to rank buying a home as their number one priority
- Less than half (49 percent) of America's foreign-born population actually own a home (compared to 74 percent of native non-minority Americans)
- At 39 million, Hispanics are now America's largest minority population
- One large U.S. bank estimates that 80 percent of its new customer growth in 10 years will come from the Hispanic population

How can bankers tap this growing market? How can they attract new immigrant and minority customers? And how can they convert them into lifelong customers?

To help bankers answer these questions, ABA has been working with the Georgetown University Institute for the Study of International Migration and the Development Training Institute. Through a series of nationwide workshops and using specially developed resources, we are helping bankers develop a comprehensive approach to this growing market.

To be truly successful in this marketplace, a bank must rethink its traditional approach to marketing. In fact, successful immigrant and minority outreach techniques go beyond mere marketing. While it's not necessary to create a new department in the bank, or hire many new people, it is essential that everyone from the CEO to customer service representatives commit to the effort. You want skilled people who understand the marketplace. You also want dedicated people who are going to make it happen.

A Six-Step Process

A good strategy for attracting and retaining immigrant and minority customers is to follow the six-step plan worked out by ABA and its immigrant marketing partners. These basic steps can work whether you hope to attract new immigrants or want to work with existing minority groups in the community.

1. **Understand the Market.** Language, culture, regional differences, race, religion and many other unique characteristics help differentiate immigrant and minorities. Native Americans are not Pacific Islanders. Asian Americans come from many nations. Hispanics include people of many different characteristics, and from many countries. Also, assess the size of the community you hope to reach. In other words, know the marketplace you're dealing with. Understand its differences and similarities. Identify those people in the community who you can reasonably hope to serve. Be realistic about what the bank can and cannot do with regard to staffing, additional resources and regulatory compliance. Start small, if necessary.
2. **Build Infrastructure.** The most important decisions you will make involve recruiting and hiring the right people. Your marketing and outreach team should reflect the ethnic makeup of the new customers you hope to reach. Choose people who fit into your organization's corporate culture and, where possible, find individuals who are multilingual, who understand the cultural nuances of the marketplace and who will be credible and trustworthy in the eyes of your new customers.
3. **Reach Out.** These new customers may not be familiar with the way banks work, or know what it takes to open a checking account or get a loan. Build trust and establish credibility with your new customers by

helping them understand the financial basics. A good outreach program incorporates education and information about the basics of personal finance.

4. **Determine Creditworthiness.** Standard underwriting criteria may not work for consumers who are often paid in cash, don't use credit, work several jobs and don't have a checking account. Look for alternative ways to deliver banking services to these customers.
5. **Tailor Effective Products.** Consider programs that incorporate lower down payments or higher qualifying ratios. Don't assume that your immigrant and minority customers possess traditional credit histories. Look at government programs like those provided by HUD, the government sponsored enterprises and others to help overcome these initial barriers.
6. **Develop a Plan of Action.** Establish organizational goals that pull all of the resources of the bank together in serving the immigrant and minority consumers you've identified. Track your progress and measure success. Set realistic, long-term goals.

Obviously, the goal isn't just to sell banking products. Not in the short run. Bankers need to build long lasting customer relationships in the immigrant marketplace based on specially defined services, developed trust and customer loyalty. In today's search for new customers, every bank in America, big or small, should be taking steps now to reach out to America's growing immigrant and minority populations. The banks that are successful today in reaching this market will, themselves, be the banks of the future.

James Ballentine is Director of ABA Housing & Community Development. To find out more about how to develop a comprehensive approach and infrastructure in the bank for reaching the immigrant market, contact him at 1-800-BANKERS.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 15, Issue 3 The Keys to the Kingdom of Financial Empowerment for the Unbanked

Author(s): Ronald C. Rawson, CEO, The Minotaur Group
November 2003

In Mexico, bank accounts are not federally insured as they are in the United States. Legends abound among immigrants about a friend or relative who deposited his or her life savings into a bank only to find the doors locked and the business gone the very next day.

Banks here in the U.S. face that same distrust from Mexican nationals. "It's hard to get workers into [a financial] institution. They like to see their cash, to be able to count it, and to feel it in their wallet," says Terrie Olivera, a financial counselor with the Idaho Credit Union League. Credit union and community bank education programs are now teaching about cost effective methods to remit money and make bill payments that may help change much of this thinking among workers here.

Olivera teaches financial management classes targeted to migrant workers at the Idaho Migrant Council. Her primary goal is to get workers affiliated with a financial institution. But first, she has to show them how not having a bank account can eat up their paycheck, little bites at a time. She continues, "Farm workers earn little to begin with. For example, let's say the average wage is approximately $6 per hour in Idaho. Workers often spend 12 to 16 hours a day in the field during the summer, without the benefit of overtime pay. A 60-hour week in the field would gross $360. Take-home pay after taxes would be about $300. Fees from check cashing and payroll loan outlets can add up quickly. Cashing a $300 check would cost about $10. Used only occasionally, the fees are nominal; but making it a weekly habit can cost more than $500 a year—nearly two weeks pay."

An Unfortunate Reality

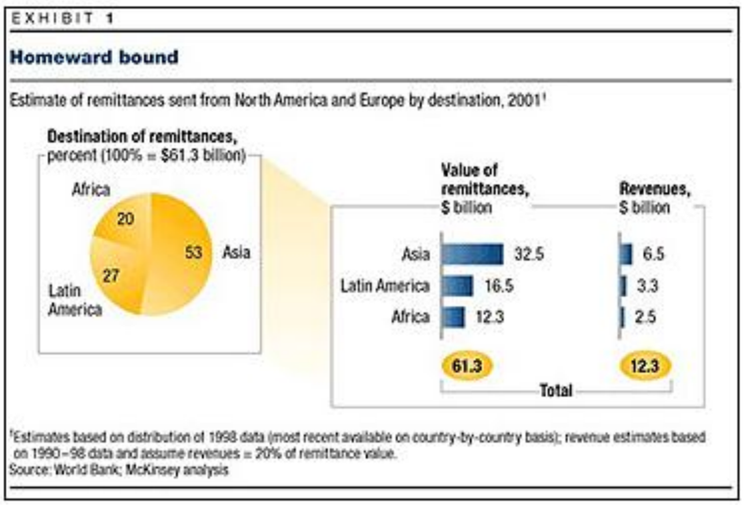
Nearly 10 million U.S. households do not have a bank account. This represents 9.5 percent of all U.S. households, 22 percent of low-income families, and 8.4 million families earning less than $25,000 per year who do not have either a checking or savings account. In fact, 83 percent of those who are unbanked earn under $25,000 per year. Among low- and moderate-income families, households are more likely to be unbanked when they have less wealth, have less education, are not working, are younger, have more children, rent their home and are a racial or ethnic minority. Broadly speaking, the common reason for lacking a checking account is being unable to afford the costs of the account.[1]

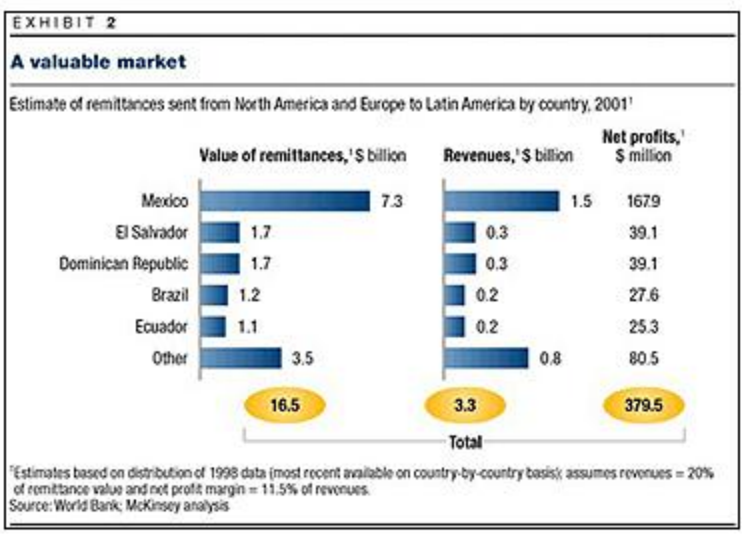
Olivera adds, "Bankers take note, the magic here is to find a low-cost delivery system that will keep an account within your organization. We've all too often heard many a wife lament, 'If our money is not in my husband's pocket on payday, he's not going to spend it.' Both employer and employee relationships with banks can be strengthened by low-cost services that reduce cash handling and keep funds on deposit.

Wiring money to their home country is another significant expense migrant workers face. The rates may even vary from day to day. The cost for sending an immediate transfer of $1,000 to a recipient in Mexico (via a well-known national money wire house) was recently quoted at $50. Olivera said she has seen fees as high as $70 per $1,000. Some wire services also charge the receiver a fee. Even after the check is cashed and the money wired to Mexico, exchanging U.S. dollars for pesos can cost another 10 to 20 percent.[2]

Many workers who send money abroad to relatives are dissatisfied not only with the reliability and speed of the present informal remittance networks but also with the exorbitant fees they charge: 6 to 15 percent of the remitted amount for the transaction, as well as a hefty exchange rate margin of 3 to 5 percent. They take the cash to a neighborhood agent located, for instance, in a convenience store. These agents, mostly representing small remittance companies in the immigrants' home countries or, in a few cases, multinational operators, pocket half of the transaction fee and then deliver the cash to the office of the remitting company, which wires the money at a previously negotiated exchange rate through its own bank account to a bank in the country of destination. The recipients there can collect the cash from local agents or local branch offices representing the remitting company or its partners or they can pay to have the cash delivered to their front doors. McKinsey and Co. estimates that remitters collected about $12 billion in fees last year and that the remitters' revenues are growing at a compound annual rate of around 8.5 percent.[3]

Money remittances are big business. Official statistics vary; however, general estimates are that immigrants in North America and Europe send more than $60 billion to their home countries each year (Exhibit 1 & 2), transmitting the funds largely through small and informal neighborhood players. Just over half of all global remittances originate in the United States, with 65 percent of that money going to Latin America. And while it appears that banks and other major financial institutions are getting into this high-margin business, the cost associated with pursuing and adding unbanked account holders is relatively high for many banks. This experience may be changing as grassroots organizations, technology companies, and even community bankers see opportunities in sensitive economic regions--such as the San Joaquin Valley in California — to address the special needs of unbanked workers through third parties.





New Technology as the Opening Wedge
Many analysts and market watchers suggest that innovations in technology, rapid rates of adopting new technology, and creating strategic partnerships may be the best solutions for decreasing the costs of foreign remittances and bill payment services for the unbanked.

One such company, The Minotaur Group, offers a cost-effective payroll card that can be used for "cash back" at any POS device or ATM. Branded "Con Dios Financial" to appeal to the largely Hispanic unbanked market, the card features a companion debit/ATM card for receiving remittances anywhere in the world. Over 50,000 Con Dios-type payroll cards have been issued to date. Con Dios is one of several private-label products available from the Minotaur Group, which was founded by ex-bankers and payment systems experts.

A Confluence of Events and Caring Constituents
While there are several payroll debit card companies in the marketplace, Con Dios is unique in its approach to distribution. As a first step in the initial rollout, Con Dios partnered with Maderans Making a Difference (MMD); a community-based nonprofit seeking to better the lives of those in the city of Madera and the Central Valley of California through education, financial empowerment, and access to asset-building opportunities. This partnership enabled Con Dios to develop ties within the Hispanic and Asian communities, which facilitated delivery of financial education through trusted sources. This and other innovative approaches are changing habits and behaviors away

from high-cost payroll check cashing to low-cost payroll debit cards. Community groups are able to keep a small share of the revenue earned from card usage fees or, in some cases, from a monthly per-card royalty, creating a sustainable stream of money that flows back to help each community.

Recently MMD hosted "Fiesta en Madera," a unique festival with Oaxacan music, dancing and food for the many Oaxacans in Madera. A number of vendors, including financial institutions, sponsored education tables. Mike Fuller, founder and director of MMD, reported that a respected leader in the Oaxacan community called to tell him that people from the Oaxacan community were very happy with Fiesta en Madera. He continued, "Our community-based affinity groups are able to share in a win-win-win proposition because we're working toward financial empowerment, education, and a better quality-of-life for everyone."
The second part of Con Dios' unique strategy is to work directly with key community employers whose longevity and success are tied to the well being and economic prosperity of their employees. Using a model developed by the Central San Joaquin Valley Federal Inter-Agency Economic Development Task Force,[4] Con Dios and eligible employers have began offering a "split funded" payroll option for employees. Payroll is deposited by employers to employees' new debit card with a small portion earmarked for a specialty account. Employees may choose to fund a regular or periodic allocation to an individual development account (IDA) that earns match funds. These savings

accounts are dedicated to securing the down payment on a first-time home purchase. Cyndi Abbott, CTO and director of Minotaur Group said, "Con Dios sets up the easy-to-use employer check lists and the bank-sponsored trust accounts. As an ex-banker, I believe there's a great opportunity for bankers to help move their best clients into further bank services."

The third and potentially most influential key to the sales process is Con Dios's cost model for employers that can save up to two-thirds of present paycheck issuance and distribution costs on weekly or semi-monthly payrolls. Funds are simply uploaded into a sponsoring bank's trust account, and as the cards are used for bill payment, cash back, ATM withdrawal, or as a remittance vehicle, transactions are authorized, cleared and settled exactly as with any PIN-based product. Clearly, employees benefit from making remittances and transactions costing cents rather than dollars each week, and they can save much more readily for their future with the addition of matched funds from entities sponsoring IDAs on their behalf.

Conclusion

Ronald Rawson, CEO of The Minotaur Group said, "Our goal for Con Dios Financial is to provide an [user-friendly] employer-sponsored debit card payment vehicle (other than checks and cash) so workers can send low-cost remittances to their home countries, access the cash-back feature from any point-of-sale terminal, or use ATMs worldwide, all on existing payment networks. We know connectivity, cash access, and cost-effective remittance payments are essential for improving life for unbanked and foreign workers in the U.S."

Changing the behavior and financial education levels of millions of low-income and unbanked households takes vision and time. Raising the financial well-being of these individuals requires help from community-based nonprofit organizations, financial education from bankers and credit unions, support from employers, forward thinking from new technology companies and federal resources. Perhaps most importantly, the availability of new financial empowerment opportunities must be communicated to these consumers and to their families back home.

Sources for more information:
The Minotaur Group, Con Dios Financial

Cyndi Abbott – Director

Contact information for Terrie Olivera, 1-800-627-1820,
http://www.Idaocul.org

Maderans Making a Difference
http://www.accessmadera.org/home.html
Mike Fuller, Chairman of the Board

Central San Joaquin Valley Federal Interagency Economic Development Task Force
Rollie Smith, 2003 Chairman

Ronald C. Rawson, CEO, Minotaur Group

The Office of the Comptroller of the Currency has published a study about the growth of payroll cards and their potential for use with unbanked consumers. The study can be downloaded from:
http://www.occ.treas.gov/cdd/payrollcards.pdf (PDF off-site)

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[1] Michael S. Barr, a working paper prepared for the Brookings Institution Center on Urban and Metropolitan Policy, July 2003: University of Michigan Law School

[2] Geralda Miller, "Money Transfers to Mexico a Growing business," *Reno Gazette-Journal*, March 17, 2003 (http://www.hispanicvista.com/html3/032403fi.htm)
[3] Andres Maldonado and Alejandra Robledo, "Sending Money Back Home," *The McKinsey Quarterly*, 2002 Number 4
[4] The Central San Joaquin Valley Federal Inter-Agency Economic Development Task Force was established by Executive Order 13173, under President Clinton. Rollie Smith, Operations Specialist at HUD in Fresno, CA., serves as lead of the rotating federal partner management and currently chairs the task force. Rollie has brought together the leaders of many community groups and institutions to jointly resolve intransigent quality of life challenges in the central San Joaquin Valley. This group has declared-among others-the goal of providing financial education that will help to financially empower low-income workers. The group also seeks to utilize private sector business and technology in promoting task force objectives. (http://www.archives.gov/federal_register/executive_orders/2000.html)

Biography

Ronald C. Rawson is CEO of Minotaur Group, providing specialized payment solutions for companies with employees who don't have access to bank accounts by choice or circumstance. Minotaur offers an FDIC-insured, employer sponsored payroll debit card.

Prior to taking this present assignment, he was president of R. C. Rawson Co., a family business and industry leader in the marketing and strategic business development of both debit and credit card payment products since 1952. R.C. Rawson has facilitated many marketing and product usage programs for card issuers, associations, and merchant acquirers, which include Bank of America, American Express, Chevron, MasterCard, and Visa International.

Mr. Rawson continues to develop business strategies and strategic alliances within the card payment industry and the seed capital investment community, and is currently working with clients in specialty payment products, in multi-application loyalty, micro payments, and smart card (integrated circuit chip) strategies for business and consumers using e-commerce interactivity. He consults to venture capital partnerships, has been a speaker at financial industry conferences and seed capital venture investor meetings. Mr. Rawson also is active in writing articles for publication, reviewing content for film and television production, and serves in an advisory and board of directors' capacity with early stage companies.

He earned a BFA degree in film and television from UCLA and an MBA from Golden Gate University, and resides in Orinda, California.

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Community Investments Vol 15, Issue 3
Providing a HEAD START with CRA

Author(s): Brian Scrip, CRA Officer, Westamerica Bank
November 2003

The thing that keeps CRA interesting is that one project often uncovers another opportunity that leads to another project. Westamerica Bank discovered this when a simple plan to expand our financial literacy training for adults (*How to Budget Your Money and Save*) led to the opportunity to promote computer training for children.

Financial literacy has always been a core value of Westamerica Bank. We developed custom financial literacy training materials and used them to sponsor community seminars for many years. However, the bank was at a point where we wanted to take this training to a larger audience. We began the search for a new partner; an organization that offered a valuable service in the community, with a successful track record and strong grassroots support. We learned about Head Start and it seemed to be the perfect opportunity.

Head Start agencies have a mission to help provide learning skills to children of low-income families, to emphasize early childhood health and to provide social services to Head Start families. We felt Head Start families would really benefit from financial literacy training so it seemed like a natural fit to us.

Initially, it was difficult to convince Head Start that a bank wanted to help. At my first meeting with Edward Condon, executive director of the California Head Start Association, he was perplexed about why someone from a bank was sitting in his office offering to provide free basic budget training. This was not something he typically heard from bankers, but it wasn't long before he realized it made sense. Head Start families face immense financial hurdles. Raising a child is expensive anywhere, but raising a child in California with high costs for housing, food, vehicles and child care can be daunting.

After our meeting it was decided. Westamerica Bank would attend the next Head Start state conference, set up a booth to display our basic budgeting curriculum, teach three breakout sessions on budgeting, and offer to teach additional Basic Budgeting seminars with any Head Start agency that expressed interest. The response overwhelmed us. Our supply of handouts disappeared the first day of the three-day conference and we had to put out a call for a new supply by express mail. Plus, all three basic budgeting sessions had overflow crowds.

We learned a lot from the conference. For instance, in the budgeting sessions, we learned that families are really struggling with budgeting. We learned that budgeting is much more that just balancing a checkbook and opening a savings account; it has a lot to do with controlling the expenses of everyday life and the pressures to spend. We learned that budgeting success is essential to the stability and welfare of families, and that managing money successfully is crucial to success in America. Now, when we teach any budgeting seminar we display a large poster that reads: *"Money doesn't come with instructions* (see box 1)*."*

Head Start also taught us an important lesson about early childhood education, which eventually steered Westamerica into a new CRA direction. We learned from Head Start that a child's early school success has a direct correlation on their future success in school and as an adult. If a child from a low-income family is to compete successfully in society, the child needs to be given basic educational tools. Head Start has an amazingly successful record in giving children these tools. According to studies:

- One-third more at-risk children who attended a quality early childhood program graduate from high school than those who did not attend
- Children at-risk who have been enrolled in a quality early childhood program are 25 percent less likely to be retained a grade
- In a study comparing matched groups of low-income children attending Head Start, other preschool or no preschool, the Head Start children scored higher on school readiness measures
- As adults, those who attended a quality early childhood program are three times as likely to be homeowners by age 27[1]

These statistics made it obvious to us that we could make a significant and long-lasting difference in our communities by doing more. We felt we could be of direct help to the children by providing them with educational materials. In discussions and brainstorming with Head Start management, we formed the commitment to help increase the children's' computer, reading and math skills through interactive software programs. We bought 25 computers and installed in each the highly-rated educational software programs "Reader Rabbit" and "Math Blaster." We asked Ed Condon to distribute the computers to various Head Start agencies throughout our service area. It worked great. The children had fun with the interactive educational games and the bank realized its investment was a tangible contribution to the success of at-risk children in our communities.

Through our experience with Head Start, Westamerica Bank discovered that helping our communities is an on-going process. It means always looking for new and more effective tools. Effectiveness in CRA means finding new ideas that lead to better approaches. The process never ends. Head Start is wonderful organization and now we ask ourselves where do we go from here?

To learn more about the partnership between Head Start and Westamerica Bank, email Ed Condon or phone: 916/44-7760. Email Brian Scrip or phone: 707/863-6801.

Box 1
Lessons Learned from Head Start Families

After teaching basic budgeting for three years we have come to the conclusion we need to refresh our basic budgeting materials to better reflect the financial needs of our communities. Following are some of the candid comments we received from Head Start participants.

- During a speech at the Head Start conference, I asked everyone to raise their hand if they wished a bank would move into their neighborhood. The room fell silent and no one raised their hand, so I moved on with the speech. After the speech one of the senior managers at Head Start came up to me and politely said, "What we need is not another bank in our neighborhood; we need are jobs so we have something to take to a bank."

- The question of how to manage credit card debt comes up in every class. High credit card debt is a burden that is hurting all of these families. We often hear comments like, "some months I have a choice of paying my credit card minimum or my electric bill." After doing a monthly budget, many of the families barely have enough money to live on or they have none. It is not unusual to see a family making $28,000 per year with $9,000 in credit card debt. It is clear that the banking industry needs to be more responsible in giving out multiple credit cards with no thought of repayment ability. We have found that giving someone too much credit can hurt as much as unfairly denying credit. Now we teach in every seminar how to avoid the "credit card trap" and will include this in the basic budget rewrite.

- We often get questions about the best way to search for a loan. With approximately one FDIC-insured branch for every 250 people in San Francisco and many other loan companies, people simply get confused trying to find the best loan program.

- Another question we hear asked in a lot of different ways is, "I have poor credit what can I do?" About 26 percent of low-income families have what would be considered poor credit. WestAmerica Bank is not a credit repair counseling agency so we have stayed away from this issue. However, it is becoming too important a topic to skip over and we plan to address it in the rewrite.

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[1] Head Start facts provided by the National Head Start Association (http://www.nhsa.org/research/research_re_bites.htm)

Biography

For the past five years, **Brian Scrip** has been the vice president and compliance manager for Westamerica Bank and its affiliates as well as the community reinvestment officer for the Bank. As compliance manager, Brian monitors the bank's regulatory compliance program. As CRA officer, he is responsible for creating the bank's CRA plan, developing a strategy for implementing the plan and creating new ways to help the community and the bank's CRA efforts.

Brian's CRA motto: "there is always better idea and approach, we just haven't thought of it yet" precisely reflects his creative, "outside the box" attitude towards CRA. His CRA dream is to create a giant web site dedicated to all things CRA that could provide a one stop place to convene CRA people, projects, ideas and opportunities.

Prior to working for Westamerica Bank, Brian was an examiner for the Federal Reserve Bank of San Francisco and the Office of Thrift Supervision. As an examiner, he worked in all areas of regulatory compliance and examination. He also completed several special projects concerning fair lending. Before becoming a regulator, Brian worked for 12 years at various financial and mortgage banking institutions. There he performed compliance and research duties. Brian earned a B.A. from the University of the Pacific.

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Community Investments Vol 15, Issue 3
A Credit Union from the Ground Up

Author(s): Maeve Elise Brown, Staff Attorney, National Housing Law Project
November 2003

In addition to her work with the National Housing Law Project, Maeve Elise Brown volunteers for the People's Community Partnership Federal Credit Union as board chair, fundraiser, active participant on the marketing and education committees, and financial literacy teacher. Other volunteer work includes developing a project to protect seniors from predatory mortgage lending.

CI: What was the impetus behind starting the People's Community Partnership Federal Credit Union?

MB: In 1996, Sandy Turner, a 30-year resident of Oakland, California, approached the East Bay Community Law Center (EBCLC) to solve the growing problem of people on welfare not being able to access bank accounts. And it wasn't just persons receiving welfare. Apparently, a series of bank mergers over a 10 to 15-year period had resulted in branch closures in low-income neighborhoods throughout Oakland leaving community members from all walks of life without basic banking services. Some neighborhoods, such as West Oakland, had not seen a bank branch since the 1960s.

CI: Why did you get involved?

MB: Like many other nonprofit law offices, EBCLC focused on eviction defense, as well as other housing and public benefits issues. Our office had never worked on an issue even remotely similar to banking issues, and I had not worked on anything similar at my previous job. However, I had been brainstorming with the director about the importance of addressing broader, systemic problems that made it difficult for our clients to escape poverty. The least I could do was talk to Sandy and try to understand the problem. I learned that there were other community members concerned about the same issue, so I offered to host a meeting to gather more information. Thus began my four-and-a-half year journey into the research, planning, organizing and development of what ultimately became People's Community Partnership Federal Credit Union (People's).

CI: What came out of this first meeting?

MB: The initial group of eighteen who came together consisted of representatives from various community-based organizations, the county social services department, and other concerned community members who were discontented about the lack of access to basic financial services. A few folks at the table had already considered the idea of a credit union but did not understand the difference between various types of credit unions, much less how to form such an entity.

CI: Once you realized that there was momentum around the idea of a credit union, what was your first step in moving the idea forward?

MB: Sandy invited a speaker who had participated in the organization of what became Santa Cruz Community Credit Union. His insights helped the group begin to believe that such an entity was indeed the right vehicle to address the needs of low-income people for financial services. Next, we faced the real work: the nuts and bolts of the formation process. This process entailed several critical questions including whether to be state or federally chartered and how large of a service area we could manage.

CI: What role did you play in the process of getting the credit union launched?

MB: Following a community lawyering model, at first I believed it was my role to simply take direction from this group of people who were coalescing into a working body. When a couple of the group's participants acquired funds from a national bank closing a neighborhood branch, the group decided to use those funds to pay a consultant who had participated in the formation of a credit union in Los Angeles. After about a year and a half, the funds were gone, and progress had been made, but a great deal of work remained to be done. I came to realize that the concept would not reach fruition if I did not take more of a leadership role. The group of community members became an advisory committee to me, and I reported back to them at meetings rather than expecting them to spearhead formation efforts. My students and other volunteers were invaluable to completing the important work necessary to getting the credit union chartered and the doors open.

CI: What resources did it take to accomplish this process?

MB: Over the course of the four-and-a-half years it took from the first meeting with Sandy to the day the National Credit Union Administration granted our charter to become a community development credit union, I along with students from the East Bay Community Law Project and other volunteers conducted market research, surveyed community members, researched federal regulations, developed a business plan and raised funds. Meanwhile, the advisory group of community members continued to talk up the entity and request support to whatever extent they could through their existing networks. All told, a very long list of volunteers contributed invaluable work in getting the doors of the credit union open.

CI: What were the other critical aspects or challenges of bringing People's to the people?

MB: We had to raise just that much more money in preparation for opening doors to an office that was not going to operate in the basement of an existing nonprofit. We wanted to hire an experienced manager, as well, which further increased our up front funding needs. With all of that planned for, we chose to open our doors in West Oakland, the neighborhood most in need of financial services in the city of Oakland.

CI: What did you see as the most significant benefits to being chartered as a community development credit union as opposed to a different structure?

MB: Our designation as a low-income CDCU means that our dedication to serving low-income people is built into our structure. In addition, we are managed by members, which also keeps us true to our mission. We then went the extra step of obtaining both state and federal community development financial institution (CDFI) status, which permits individuals and corporations to receive tax credits and other advantages for investing in us.

CI: What is the core membership of People's?

MB: We are more than fulfilling our mission of serving Oakland's low-income residents. Approximately 75 percent of membership is low- or very low-income. A majority of our members were "unbanked" before joining People's. In other words, they had not had a bank account for at least three years, if ever. Approximately 60 percent of our membership have been listed on ChexSystems (a bounced check reporting database used by a majority of banks to determine whether to open a new account). People's does not exclude persons with a ChexSystems' record from having an account. Anyone who lives, works, worships or volunteers in Oakland's flatlands may join People's Community Partnership.

CI: How have you been so successful in reaching a group historically resistant to banking with traditional institutions?

MB: Word of mouth continues to be the number one way in which People's attracts new customers. From January 2003 to the present, we have more than doubled our membership for a total of almost 900 members. Outreach has included community walks through the local neighborhoods, participation in fairs and other community events and presentations at community meetings. We have not advertised much in any media as yet because we believe that it is the reputation and trust that we build with our members that are the best advertising of all. Community members come to us with horror stories about how they were treated by whatever institution they banked with previously. It may sound corny, but it seems to be true that treating members with dignity and personal attention has been a large part of our success. Residents hear about us from friends and family and are willing to walk through the doors and give us a try.

CI: What services do you offer your members?

MB: To meet our mission of reaching the unbanked, we built into our business plan the goal of carrying cash early on in our existence. In researching the types of services that other community development credit unions provide, I was struck by how many of them had chosen not to carry cash. In other words, at the time of our organizing PCPFCU, there were CDCUs over 20 years old that had never been able to cash member checks. Instead, they issued vouchers that members would carry to a bank to be cashed. Our decision to make sure that we undertook the proper security measures and training to be able to cash checks was non-negotiable. Within fifteen months of opening our doors, we began cashing member checks. That service, in conjunction with small, affordable loans including auto loans enables our members to rely on us for all their basic banking needs.

CI: When you say small loans, what is your upper limit and what percentage of your members are actually qualified?

MB: The most time-intensive part of our services is our loans. The majority of our membership does not have a great deal of uncommitted income, and a significant percentage also has credit problems. We spend a considerable amount of time helping members understand the process of improving their credit and structuring debt. The education portion of the loan transaction is vital to meeting our mission. Members may borrow up to $3,500 for a personal, signature loan. We offer other types of loans as well that allow members to build or repair credit.

CI: People's is to be commended for filling the gap in banking services. Where do you go from here?

MB: Credit union members have listed ATM service as a number one priority; and there are community members who will not join until we offer that type of remote access to their funds. We are in negotiations with providers so that we can offer this service by the end of the year. In the meantime, we are working to expand services to meet the needs of immigrants. We need to increase our staffing and establish a presence in neighborhoods to the east of us.

We are also about to embark on what is at least for us a large-scale media campaign as an experiment to see who it attracts. We may learn that for the unbanked, it is still word of mouth that wins the day.

CI: This all sounds very ambitious. Will you be able to accomplish this with your current operating budget?

MB: Raising capital through investments and grants is essential to our being able to have a physical presence in other neighborhoods in the near-term and expand membership. Individuals and institutions interested in investing in us through California's CDFI program can claim a significant tax credit, while other vehicles such as the federal Bank Enterprise Award program also provide an economic benefit to banks that invest with us. We also seek talented people to volunteer on our committees and/or to assist with specific tasks within the office.

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Biography

 **Maeve Elise Brown** is a staff attorney with the National Housing Law Project (NHLP), working on a range of issues that includes Section 8 Homeownership, voucher utilization, and income discrimination. In 2003, Maeve Elise launched NHLP's new predatory lending initiative, a joint project with the National Consumer Law Center under which both programs are working to expand the pool of advocates available to assist low-income consumers who have fallen prey to abusive lending practices. Building on this effort, Maeve Elise has also devoted attention to assisting the City of Oakland in the development of its own predatory lending initiative and is working to form a regional collaborative with other groups in Northern California that are working to combat this problem.

Prior to working at NHLP, Maeve Elise served as director of the community economic development unit (which she helped to form), and director of the housing unit for the East Bay Community Law Center (EBCLC). A major project realized under Maeve Elise's leadership was the planning, development and start-up of the People's Community Partnership Federal Credit Union (PCPFCU). Maeve Elise is board chair for PCPFCU, spearheads fundraising for the credit union, and serves on the education and marketing committees.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 15, Issue 3 Investing for Social Good: Community Development Venture Capital

Author(s): Kerwin Tesdell, President and Charity Shumway, Program Assistant, Community Development Venture Capital Alliance
November 2003

Venture capital can be a powerful tool for building strong entrepreneurial businesses. Because of the patience of equity capital and the entrepreneurial and managerial assistance that a good venture capitalist provides to augment the investment, businesses are able to grow in ways they generally cannot with debt financing alone. The field of community development venture capital (CDVC) recognizes this and seeks to use the powerful tool of equity finance, not just to build businesses, but to build businesses that benefit low-income people and distressed communities.

Like traditional venture capital funds, CDVC funds look for businesses with strong growth potential that promise to provide outstanding financial returns for investors. However, unlike traditional venture capital funds, CDVC funds also have their eye on a second, social bottom line. They look to invest in businesses whose growth has the potential to create good jobs for people with limited job opportunities. This double-bottom line approach means that while traditional venture capital funds and CDVC funds use the same financing techniques, their investment portfolios ultimately look quite different.

CDVC funds invest in geographic areas that are not typical VC hotspots. Between 1991 and 2000, 65.2 percent of all traditional venture capital investment dollars went to companies located in just five states — California, Massachusetts, New York, Texas, and Colorado. In contrast, CDVC funds invested in places like rural Kentucky, the Mississippi River Delta, and Macedonia; and when they invest in states like Massachusetts, their investment dollars tend to go to areas like Roxbury rather than high-tech hot spots around Route 128.

CDVC funds also invest in industry sectors that are atypical for traditional venture capital funds. While CDVC funds make some investments in technology or biotechnology related businesses, two sectors where traditional venture capital dollars are concentrated, CDVC funds typically focus elsewhere. Manufacturing businesses made up 39 percent of all CDVC investments in 2002, with service-related businesses following at 20 percent. Both these industry sectors tend to offer good employment for people without advanced degrees.

The Community Development Venture Capital Alliance (CDVCA) is the trade association for the community development venture capital industry. As an outgrowth of its mission to promote the use of venture capital to create jobs, wealth, and entrepreneurial capacity that benefit low-income people and distressed communities, CDVCA has its own investment fund the CDVCA Central Fund, which makes investments in CDVC funds and co-investments alongside other funds in businesses that meet its social and financial criteria. In August 2003, the Central Fund closed its first direct investment into a business — SelecTech, Inc. This investment highlights many of the characteristics typical of CDVC investing.

SelecTech is located in Taunton, Massachusetts, a formerly thriving industrial area that has suffered as textile manufacturing has moved offshore. The company manufactures products made from 100 percent post-industrial and post-consumer plastics. Its newest product, Freestyle, is a durable flooring material ideal for commercial spaces. Freestyle, named because it is a free-lay product that requires no subfloor preparation, special adhesives, or professional installation, is also moisture resistant and does not expand or contract with changes in heat and humidity — all significant commercial flooring considerations. SelecTech already has large contracts with a number of major customers, and with the introduction of this new product line, CDVCA expects SelecTech to experience tremendous growth in the next few years.

In addition to looking like a company that will generate terrific financial returns, SelecTech has already begun generating strong social returns. The company has created 15 manufacturing jobs and anticipates creating 30 to 40 more in the next four years. All of the jobs are located in Taunton with wages starting at $9 to $9.50 an hour for production jobs and $18 to $22 an hour for supervisors. The company provides health care coverage, a stock option plan, and a 401(k) plan. Additionally, SelecTech provides on-the-job training and opportunities for employees to move up to more independent and supervisory roles as they master the necessary skills.

With its investment of $250,000, structured as a five-year subordinated loan paying 10 percent annual interest and ten-year warrants as an equity kicker[1], the Central Fund joined other CDVC co-investors — SJF Ventures, Fleet Development Ventures, and the Boston Community Venture Fund. This group will move forward together, not only to provide further financing as necessary, but also to provide technical assistance to the company to help it grow.

The growth of small businesses is integrally connected to healthy economies and successful communities. With the awareness of the role equity capital can play in developing such businesses, the CDVC industry is one of the fastest growing sectors of community development finance. Since the end of 2000, the industry has grown from 52 domestic CDVC funds actively investing or in formation with $300 million in capital under management to

80 funds investing or in formation with $548 million in capital under management as of the second quarter of 2003. Banks have been the single largest provider of capital for the industry, accounting for 40 percent of all equity investments made into funds. This growth has taken place during one of the most difficult fundraising environments the venture capital industry has ever faced. In the year 2000, the venture capital industry raised $106 billion in new capital. In 2002, the venture capital industry was able to raise only $6 billion. During those same years the CDVC industry grew by 38 percent.

To learn more about the community development venture capital industry, visit the Community Development Venture Capital Alliance's website at www.cdvca.org.

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[1] Warrants entitle the holder to buy a specified amount of common stock or preferred stock at a specified price for a period of years. In the case of CDVCA's investment, the price at which CDVCA can purchase stock in SelecTech is locked in for the next 10 years.

Biography

Kerwin Tesdell is the president of CDVCA. He is also an adjunct professor at New York University School of Law, where he teaches a course in community development law. Prior to joining CDVCA, Kerwin was a program officer at the Ford Foundation. Before that, he was the director of the Community Development Legal Assistance Center, which provides corporate, tax, and real estate legal assistance to community development organizations in New York. Kerwin was also an associate with the law firm of Debevoise & Plimpton and served as a law clerk to a federal judge in Manhattan. He graduated from Harvard College with a degree in economics and holds law and business degrees from New York University, as well as a certificate from the Venture Capital Institute.

Charity Shumway is a program assistant at CDVCA where she focuses on communications and development initiatives. Prior to joining CDVCA, she worked for a business news radio station and directed several educational programs for at-risk youth. She graduated from Harvard College with a degree in English.

Community Investments Vol 15, Issue 3
Investing For "The Little Guy"

Author(s): Mark Maruyama, Executive Vice President, SaveDaily.com, Inc.
November 2003

In an era when mainstream investment firms are turning away clients with less than $100,000 in assets to invest, is it possible for banks to not only provide their low-income customers with quality investment services, but to do so with attractive margins?

The Challenge

Historically, financial institutions have viewed business opportunities in low- and moderate-income markets as marginal at best, especially investment and advisory services. Meanwhile, the competition to attract and retain lucrative high net-worth investment customers has created an ever widening gap between the products and services available to low-income consumers and the affluent "target market." The result: the affluent market has become saturated while the low-income market remains largely underserved despite a strong demand for financial services. This gap is manifest within many banks where low- to moderate- income banking customers make up the "bread and butter" of the customer base.

Why have traditional providers been slow to penetrate the low-income market? Simply put, in the past, banks and brokerages have found it too costly to open and maintain the small-volume investment accounts appropriate for low-income consumers. There is significant expense in servicing an investment account, so the bank must either cover these costs through high fees (commissions, transaction fees, account maintenance fees), and/or ensure that its investment accounts have high asset levels (through minimum investment requirements). Of course, these very fees and investment minimums act as financial barriers to exclude many low-income investors from participating. A new approach is needed that will remove the barriers preventing low-income investors from participating and banks from serving this market; an approach that encompasses affordability, guidance, and simplicity.

The Opportunity

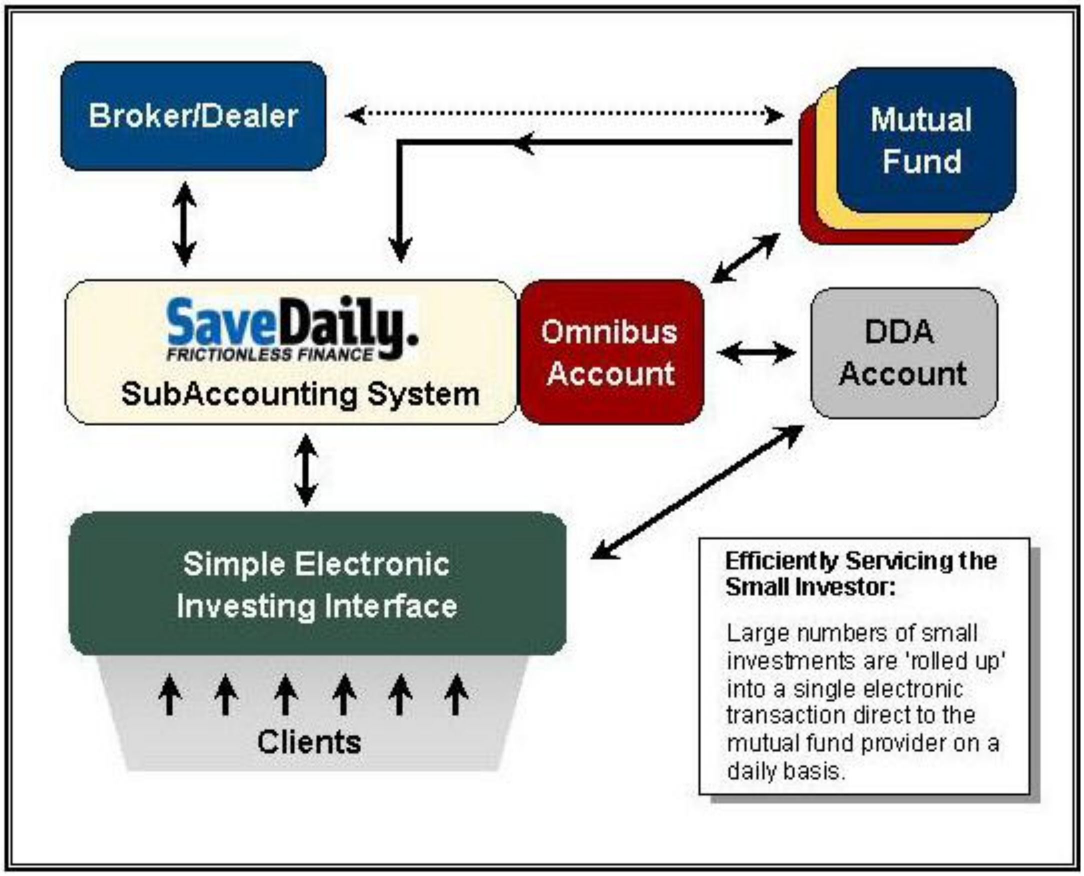
Evolving technologies and innovative new models are laying a path for both traditional and non-traditional financial service firms to realize attractive profit margins on investment services, regardless of income level or account size. As these new models drive down costs and enable access to financial tools and education, low-income consumers are emerging as a large and viable market. This article introduces an innovative platform that banks can employ to offer a comprehensive set of investment and advisory services to their low-income customers, empowering them to affordably save and invest towards core financial goals such as a first home, business or retirement.

A Solution

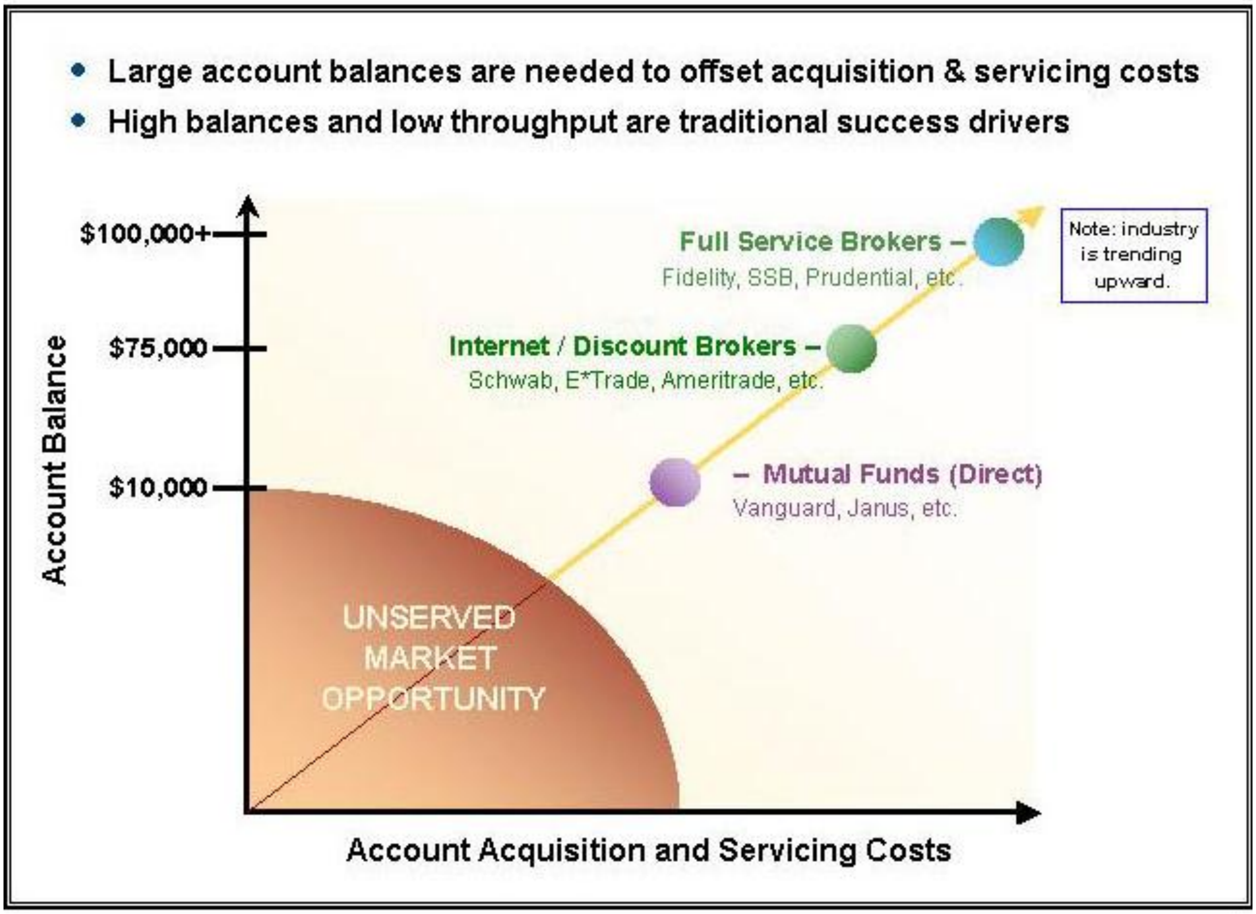
Founded in 1999 with a mission to bring affordable investing and advisory services to underserved markets, California-based SaveDaily (www.savedaily.com) has created a financial services platform which delivers a new approach. SaveDaily designed its all-electronic LiquidFinanceTM platform from scratch with an emphasis on cost efficiency and simplicity. Launched in November 1999, it helped pioneer paperless brokerage solutions, effectively eliminating printing and mailing costs while allowing for electronic registration, confirmations, quarterly statements, tax reporting, and account history. Devoid of manual processes, it incorporates straight-through processing capability to ensure maximum efficiency and minimum transaction processing costs. This ultra-low-cost investing and recordkeeping platform makes it possible to profitably service smaller balance accounts by lowering the financial entry for investors. The platform also allows for private label integration by banks, brokerages, and non-traditional financial service providers.

How It Works

Using SaveDaily's LiquidFinance platform, banks can offer their customers access to mutual fund investing with no minimums and no transaction fees at a cost that is a fraction of the industry standard. Customers can be provided complete 24/7 access to open accounts, make investments, redeem shares or view transaction histories through web sites, kiosks or ATMs. Transactions are settled utilizing the automated clearing house (ACH) network, allowing clients to invest directly from existing checking accounts into their mutual fund accounts. The platform also features systematic transfer capabilities, which allow for regularly scheduled deductions from payroll or other sources. This "out-of-sight, out-of-mind" investing allows new investors to practice regular, disciplined investing in any amount they choose while leveraging the benefits of dollar cost averaging.



At the heart of the model's transactional efficiency is SaveDaily's use of an "omnibus" account, which allows the pooling of multiple smaller investments into a single large aggregated transaction that is executed at the completion of the trading day when the mutual fund pricing (net asset value) is established. For example, 1000 individual $10 investments can be rolled up into a single $10,000 transaction direct to the fund provider at the end of a given day. Since all 1000 investments share a single transaction cost, the allotment for each of the 1000 individual investments is truly minimal. And since all the individual investments are rolled into a single larger investment, the need for investment minimums is also eliminated, allowing customers the flexibility to invest any amount of money in nationally-known mutual funds that would normally require high minimum investments. SaveDaily's proprietary sub-accounting technology also allows for the tracking and reporting of each individual investor's activity, which is manifested in the system via electronic confirmation notices, online account balances, quarterly statements, etc.



Save-Today (www.save-today.com), an online investment service based on SaveDaily's platform, calls the above concept 'micro-investing': the ability to regularly contribute small amounts over time to an account without worrying about minimum investment, account size requirements or the eroding effect of individual transaction fees. While the model can be structured to accommodate participation by platform reps or registered financial advisors, its leanest form is a 'self-serve' model in which the customer interacts directly with the system via a web browser interface to invest in no-load shares at low cost.

The various features of SaveDaily's innovative platform essentially allow any intermediary to market an investment program with:

- no minimum initial or ongoing investment
- no loads or commissions
- no transaction fees
- unlimited transactions for one low monthly or annual fee

The result is a compelling value proposition for the low-income investor. Importantly—as outlined later in this article—with the collection of a low monthly/annual fee, this model is profitable on a per unit basis, regardless of income level, account size or activity levels.

Providing Guidance

Historically, professional financial advice had been available only through a broker or a financial planner, and then only to the relatively affluent. Ironically, it is the underserved, low-income investor who most likely lacks investing expertise. To address the need for guidance, SaveDaily's platform provides an automated interface to assist customers in determining their investor profile and goals, selecting suitable investments and managing those investments over time. The advisory capabilities are imbedded in the system's "assessment wizard," an online questionnaire that recommends an appropriate account type and suitable investment allocation based on the customer's responses to a series of interactive questions and scenarios. For example, an investor with a six-month time horizon would be directed to a low-risk money market option, while a more risk-tolerant investor saving towards a distant retirement might be directed to a more aggressive allocation. To address the unique needs of a multi-cultural audience, the wizard can be made available in several languages.

To enable cost effective ongoing management and oversight of customer investment accounts, SaveDaily's system provides tools for banks to deliver and monitor specialized, goal-oriented asset allocation portfolios. Banks can choose to design these allocations themselves or to have them designed and managed by nationally-known investment organizations. The LiquidFinance platform automatically rebalances and reallocates portfolios in accord with a customer's profile and investment goals. This model allows low-income investors to benefit from the 'high touch/low cost' service of ongoing professional money management without the need for a costly personal investment adviser.

One Size Does Not Fit All

SaveDaily's customizable interface allows the program to be presented to target a particular demographic and align with any bank's brand. Color schemes, graphics, marketing messages, language, and even financial products can be assembled based on the target audience. For example, SBK-Brooks Investment Management Corp, a Black-owned investment bank headquartered in Cleveland, Ohio, launched the Black Wealth Network (www.bwnonline.com) using SaveDaily's platform. It offers African-American-managed mutual funds in a program that is truly tailored to the African-American audience it is targeting. While not aimed at a particular income level, the low cost/no minimum nature of the program allows low-income investors to participate alongside more affluent investors.

CRA Eligibility

Delivering investment services to low-income customers may be the most daunting part of an effort to offer the same caliber of retail banking services across all income groups. SaveDaily's program can help accomplish this goal. The Community Reinvestment Act evaluates both the range of services offered and the degree to which those services are tailored to meet the needs of specific geographies. Recent interest in asset accumulation among low-income consumers underscores the need for products that will allow this group to access higher-yield instruments beyond passbook savings accounts. Using information that is collected at the time a customer signs up for an investment account, such as zip code and income, an institution can track and document the percentage of its customers that fall within the low- and moderate-income range. Institutions that adopt programs that allow low-income customers access to investment services can enhance their CRA program, and thus distinguish themselves as marketing innovators.

Expanded Services Yield Expanded Profits

In addition to the responsiveness and CRA advantages of offering investment and advisory services to the low-income demographic, these services can significantly impact the bottom line. Because of the low cost of servicing accounts on an electronic platform, banks only need to collect a few dollars a month in fees to turn a profit regardless of account size. In addition, asset-based advisory fees for managing the allocations, and distribution payments from the mutual fund companies contribute incremental recurring revenue over time. But perhaps most importantly, selling a new product to an existing bank customer serves to lock in customer loyalty and guard against defection and erosion of assets (the average mutual fund account is held for approximately 12 years). And some low- and moderate-income customers may likely evolve over time into that most cherished of assets: the high net worth investor.

Conclusion

Innovative new models and technologies are creating an opportunity for banks to extend investment service offerings to their low-income customers, and to do so profitably. Gone are the days when financial services were available only at banks and brokerages. The industry of financial services has become a melange. Retailers are routinely cashing checks, affinity groups are offering insurance products, and a week's wages can now be stored on plastic cards that double as phone cards. Retailers and other businesses that already cater to 'middle America' and low-income consumers clearly recognize the potential associated with the provision of financial services to this large, underserved market. Low-income banking customers continue to ask for assistance with savings and investing—will banks deliver?

To learn more about SaveDaily, contact Mark Maruyama via email at: *mark.maruyama@savedaily.com or by phone at 562/795-7500.*

Biography

Mark Maruyama is executive vice president of business development for SaveDaily, Inc. (www.savedaily.com), an investment company focused on servicing markets overlooked by traditional investment providers. Based in Seal Beach, California, the company's electronic investment platforms make investing attractive and affordable to underserved markets and profitable to the intermediaries that deliver them. Mr. Maruyama has more than 14 years of experience in the information technology industry. In his current role with SaveDaily, Mr. Maruyama is responsible for establishing business relationships to distribute the company's private label financial services platform. Previously, he held a variety of leadership positions for the IBM Corporation, focused primarily on sales, integration services and strategic partnerships in the financial services, education, and media/entertainment industries. He received his bachelor's degree in economics and business from the University of California at Los Angeles.

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 15, Issue 3
Tips to Facilitate the Mortgage Approval Process[1]

Author(s): Craig Nolte, Senior Community Investment Specialist, Federal Reserve Bank of San Francisco
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Findings from workshops sponsored by the Bureau of Indian Affairs and the Federal Reserve Bank of San Francisco

Applicant

- Participate in homebuyer education
- Request a credit report and discuss with homebuyer counselor
- Request a Title Status Report (TSR) through either the lender or housing authority prior to completing the loan application if possible

Lender

- Request TSR at time of application, if not already requested
- Provide additional incentives for loan officers serving Indian reservations
- Meet with local tribes and others to help understand the mortgage process and distribute information on mortgage products

Bureau of Indian Affairs

- Post standardized procedures and forms on a website
- Routinely provide applicant with new TSR following loan funding
- Encourage compliance with interagency agreement (web link to our site)

Tribe

- Adopt effective housing ordinances, such as those associated with HUD's 184 Indian Housing Loan Guaranty Program
- Adopt the "One Stop" interagency lease developed by HUD
- Appoint an individual from the housing authority to be a "mortgage counselor"
- Ensure open communication between the various departments that may be involved
- Maintain information helpful to appraisers
- Provide homebuyer education
- Seek available savings and down payment assistance programs
- Develop written mortgage lending guidelines
- Develop and distribute a homebuyer checklist to tribal staff and lenders

[1]Excerpted from the article, Expediting Mortgage Processing in Indian Country, by Craig Nolte

FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol 15, Issue 3 Expediting Mortgage Processing in Indian Country

Author(s): Craig Nolte, Senior Community Investment Specialist, Federal Reserve Bank of San Francisco
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You've seen the advertisements: "fast loan approvals," "speedy processing," and "lock your rate today." But seldom do these offers show up in Indian Country. While mortgage lending in the U.S. has reached record levels during the past few years, with quicker and easier approval processing, records are not yet being set in Indian Country.

A typical mortgage applicant in Indian Country needs to be very patient. The lack of written procedures, checklists, or someone to provide guidance leaves the applicant susceptible to excruciating delays and opens the door to predatory lending. The applicant stumbles through redundant requests and reviews of credit, employment and income information only to have the loan documentation go stale before the application is approved. There is seldom a realtor to provide help, and the commission-driven loan officer grows less interested by the day. The mortgage approval partners know what each is supposed to do, but they lack a coordinator.

It's not supposed to be this way. Tribal members should not have to endure a more arduous mortgage processing than those purchasing homes off the reservation. The processing procedures are always going to be more complicated due to the varying types of land on Indian reservations and the required involvement of the tribe and its federal partners; however, the

"First Nations" should not have to be at the back of the line when buying a home on their own land. In the spirit of the Native American Housing and Self-Determination Act, tribes are supposed to be able to make more of their own decisions, manage more of their resources, and create their own destiny. The ability to easily obtain a mortgage loan on their reservation should also be possible.

To help speed processing times, the northwestern and western regional offices of the Bureau of Indian Affairs and the Federal Reserve Bank of San Francisco recently held eight workshops entitled *The Bureau of Indian Affairs: Streamlining the Mortgage Approval Process.* The primary purposes of the workshops were to uncover common reasons for loan processing delays and develop ways participants can help avoid them. The workshop also allowed participants the opportunity to share their experiences, obtain responses to their concerns, and offer ideas on how lending matters could be handled. The approximately 250 participants included representation from over 40 Indian tribes, 15 financial institutions and several government agencies.

Questions and concerns from participants were welcomed during presentations from the Bureau of Indian Affairs and HUD's Office of Native American Programs. Every step of the mortgage process was examined, including the roles of the organizations involved and the actions they could take to help speed the process. It was an interesting observation that some participants reported long processing times, confusing procedures and lack of communication from everyone concerned with the transaction, while a few reported very positive experiences. The reasons for the disparity were obvious; successful participants involved in mortgage transactions had learned over time how to speed the process, while the less-experienced were still struggling to find their way.

This article will focus on findings from the workshops and provide recommendation for things the key players in any mortgage transaction in Indian Country can do to streamline the application and approval process. These key players include applicants, tribal housing authorities, lenders, and the Bureau of Indian Affairs.

Applicants

Applicants need clear direction on how to obtain loans. Homebuyer workshops can help them learn how to be ready to borrow and the responsibility of homeownership, and can give them extra time to prepare for both. Workshops can also provide instructions on how to accelerate the mortgage approval process. Borrowers should also have access to other resources that can help them obtain mortgage loans, such as those included in *Housing Washington's Native Communities* guide.[1] This guide serves as a directory of asset-building resources, mortgage assistance programs, mortgage approval contacts, and other helpful information for Washington state. It can serve as a template to create a similar guide for contacts and resources in your area.

Tribes

The tribal government can assist the process in a variety of ways. One of the most common reasons for the lack of access to mortgages in Indian Country is the lack of effective housing ordinances and lease agreements. The U.S. Department of Housing and Urban Development's Office of Native American Programs has developed a model housing ordinance for their Section 184 Indian Housing Loan Guaranty Program.[2] The ordinance has been adopted by over 100 tribes to date and has proven to be effective at creating a legal infrastructure that helps protect the trust status of the land and make lenders comfortable. Several other interagency and model documents, such as a lease that is acceptable to several government agencies, are available through HUD's One Stop Mortgage Center.[3]

Tribes should also consider appointing staff to provide guidance to mortgage applicants to help ensure a smooth application processes. Individuals who could be familiar with the approval process, including time frames, necessary documentation and the needs of others involved in the process and who could maintain written procedures and an applicant checklist and periodically meet with key partners to learn about any procedural changes that may impact the process. These same individuals could provide homebuyer education to applicants and promote communication with other departments within the tribe, such as economic development, water/sewer, administration and the tribal council.

The Bureau of Indian Affairs (BIA)

The BIA has an enormous role in Indian Country. It is responsible for the administration and management of 55.7 million acres of land held in trust by the United States for American Indians, Indian tribes, and Alaska Natives. Developing forestlands, leasing assets on these lands, directing agricultural programs, protecting water and land rights, developing and maintaining infrastructure, providing for health and human services and economic development are all part of this agency's responsibility. For mortgage lending, its staff ensures that title transfers are conducted appropriately and reviews individual transactions to ensure the trust status of land is not violated.

The BIA does not currently have an active web site, but certain documents could be placed on other related agency or federal websites so that they would be accessible by their constituents. The Federal Reserve Bank of San Francisco has taken the first step towards this by posting several BIA documents on its website in the community development section.

Lenders

Lenders need to become familiar with the mortgage processing procedures of each tribe in their areas so that they can help expedite applications without missing critical steps. If determined necessary, lenders should consider providing additional incentive to commissioned loan officers so they are motivated to work with applicants that are more complex than traditional borrowers. Periodic meetings with tribal officials, especially tribal mortgage coordinators, can foster communication and help avoid unexpected delays.

Conclusion

The next time you see a mortgage loan advertisement, consider whether it would apply to Indian Country. With increased cooperation, mortgage processing can be swifter and homeownership possibilities can become a reality for more tribal members.

To discuss hosting or coordinating a BIA workshop in your area, contact Craig Nolte at 206/343-3632 or via email.

[1] Craig Nolte, *Housing Washington's Native Communities*, Federal Reserve Bank of San Francisco: 2003 (http://www.frbsf.org/community/native/index.html)

[2] http://www.codetalk.fed.us/HUD_ONAP.html

[3] http://www.codetalk.fed.us/One_Stop_Mortgage_Center.htm

FEDERAL RESERVE BANK
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Community Investments Vol 15, Issue 3 Reclaiming Native American Tax Dollars

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The Annie E. Casey Foundation is dedicated to building better futures for disadvantaged children and their families. Much of the Foundation's work in recent years has been driven by the idea that *kids do well when their families do well, and families do better when they live in supportive communities*. While this principle was derived from work in urban areas, the Foundation recognizes that large numbers of residents in Indian Country also struggle to meet their families' needs.

One strategy that the Foundation has found to be a valuable tool to increase the incomes of low- and moderate-income families is the Earned Income Tax Credit (EITC). The EITC is a refundable credit offered through the federal tax system (and 17 states) and is the single largest federal aid program supporting working families. It provides more dollars to working families than any other federal program.

- At $32 billion dollars, the EITC is larger than food stamps and Temporary Aid for Needy Families (TANF) combined
- Eight times the size of the Workforce Investment Act (WIA)[1]
- Ten times the size of Community Development Block Grants (CDBG)

The maximum federal EITC refund for tax year 2004 will be $4,204 per year a substantial sum of money for any family.[2] As such, the EITC provides a powerful work incentive and anti-poverty tool that has benefited millions of low-income families since its inception in 1975. Unfortunately, millions of EITC dollars go unclaimed each year. National figures estimate that between 15 and 20 percent of eligible families do not claim the EITC; for Indian Country, the numbers are much higher since a disproportionate number of non-filers are found in areas of concentrated poverty. And although the EITC is perceived as a greater opportunity for large cities, in fact EITC receipt is higher in rural areas than in cities ($7.8 billion vs. $7.7 billion). EITC receipt tends to be particularly high in much of Indian Country. According to Alan Berube of the Brookings Institution, there are 17 zip codes where over 70 percent of tax filers claimed the EITC in 2000; of these, nine are located in Indian Country.[3] What is not known however, is how many Native Americans that qualify for the EITC do not claim this tax credit. The assumption is that this could be a much larger number.

There are many reasons working families do not claim the EITC. They may think they are not eligible, or they may simply not know about it. In addition, some families may fear that filing for taxes will "tip off" the IRS or other agencies looking for those who are pursued by creditors or behind in their child support payments. A person might not have a legal liability-that is, he/she earns below the tax liability threshold and is not legally required to file-but by not filing forfeits the credit. Other issues such as language, culture, lack of local tax preparers and cost of tax preparation may also impede eligible families from filing tax returns altogether.

Nationally, 68 percent of EITC filers get their refunds through commercial tax preparers. These companies can charge up to $200 to file a simple return. Complicated returns cost much more and there are extra fees for doing the EITC form and electronic filing. Many families are offered "rapid refund" services or refund anticipation loans that further erode the money they should be receiving through their tax refunds. Low-cost or free preparation methods can offer a much-needed service to families while conserving income in rural communities.

Noel Brown, manager of the Tribal Business Information Center (TBIC), located on the Cheyenne River Sioux reservation in Eagle Butte, SD, recognized the need for reasonably priced access to tax preparation service. The area has one of the highest unemployment rates in the U.S. (over 70% in Ziebach County). Most of his clients are self-employed, many in home-based, retail, service, construction, and agriculture industries. Four years ago, individuals had no option but to drive 90 miles to reach a paid preparer. Lower income individuals often did not have access to a car, and would have to hire someone to get them there. They would then be charged very high fees by a paid preparer, and if they wanted their refund right away, they would be charged an additional fee. Several days later, they would have to hire someone else to take them to pick up their check.

Today, Noel runs a successful Volunteer Income Tax Assistance (VITA) site and community members can receive 100 percent of their returns by using the services of TBIC. In 2003, his staff assisted over 600 individuals with free income tax preparation assistance. TBIC prepared taxes for more individuals than any other VITA site in the state (second only to the Ellsworth Air Force Base) and helped families secure over $1,200,000 in refunds. Noel is interested in expanding his services by linking the EITC to financial literacy, savings, and Individual Development Accounts because many of his clients want to acquire a home or start a home-based business. He explains, "the EITC is an important resource for working families, providing the extra money that many need in these tough economic times. The EITC is also beneficial to tribal economies, financially strengthening families throughout the community."

Last year, the Ysleta del Sur Pueblo tribe near El Paso, Texas joined the "Strong Families, Strong Future" EITC campaign coalition in El Paso and provided a facility on the reservation that served as an e-file tax preparation site-one of only three in the county. Volunteers from the tribal community and El Paso County prepared 187 tax returns (including 50 with EITC), and collected over $149,000 in refunds. This year, the coalition plans to include financial literacy, IDA opportunities, and representatives from financial institutions who can connect individuals with savings accounts and other financial resources.

Dine College, located on the Navajo Nation in Arizona, is an example of a VITA program that operates out of a tribal college. Student volunteers are recruited and trained to provide free tax filing assistance. In the case of Dine College, students undergo a rigorous training developed by the Albuquerque Technical Vocational Institute (TVI) to be certified as VITA volunteers. Students receive college credit for their participation, and more importantly, experience in their field.

Tribes interested in ensuring that their members are keeping the money they are entitled to can easily include information about the EITC in existing outreach efforts such as public service announcements, flyers and paycheck stuffers (the IRS and the Annie E. Casey Foundation both provide free outreach and publicity materials that can be used to launch tax campaigns). Another idea is to build information about the EITC into existing financial literacy curriculums or to leverage EITC by connecting it to IDAs and other savings programs.

While many families use their EITC refunds to meet immediate needs such as paying utilities or rent, or to make large purchases like a car or washing machine, some families may be able to use part of their refund for savings and asset building activities. A crucial element of a successful campaign is connecting taxpayers to opportunities to build assets, and ultimately wealth. There are many potential asset building opportunities to consider, including financial literacy training, debt counseling, savings strategies, investment clubs or IDA programs. These asset building strategies can be effective ways to help families improve their long-term financial futures.

Tribes should work with community development financial institutions (CDFIs), credit unions, and banks that have an interest in serving Native American populations to establish accounts for unbanked filers to receive direct deposit or to provide low cost check cashing services. A number of institutions around the country have already enjoyed the success and benefits of partnering with a tax prep site including: Legacy Bank in Milwaukee; Shorebank in Chicago; US Bank in Sacramento; Bank One in Dallas; Members First Credit Union in Louisville, KY and Bethex Credit Union in New York City.

To help communities interested in launching campaigns, the Annie E. Casey Foundation formally launched the National Tax Assistance for Working Families Campaign.[4] The campaign stresses the importance of designing campaigns to meet the unique needs of individual neighborhoods and locales. The first year's campaign theme was "Earn It, Keep It, Save It" — a reminder that qualified working families not only need to claim the tax credit, but also should avoid losing a chunk of their tax return and credit by paying unnecessary fees or accepting refund anticipation loans (RALs).

According to a recent research study from the Brookings Institution, *Rewarding Work Through the Tax Code: The Power and Potential of the Earned Income Tax Credit in 27 Cities and Rural Areas*,[5] low-income families are losing much of their refunds to high-cost tax preparers and costly fast-cash loans that charge annual percentage rates ranging from 67 to 774 percent. In 2002, those loan products cost EITC recipients across the country an estimated $750 million.

The first year of the National Tax Assistance for Working Families Campaign was resoundingly successful. Sites affiliated with the campaign returned more than $55 million in EITC money to low-income families through the preparation of more than 96,000 federal tax returns. Plans are being finalized now for the 2004 tax year campaign, with several more urban and rural locations joining the national group including a few that are focused on working with American Indian families and in the US-Mexico border area. Part of this effort includes working with First Nations Development Institute to develop a module highlighting the benefits of EITC. This curriculum is being designed for use as stand-alone material or can be incorporated into the existing *Building Native Communities: Financial Skills for Families*[6] training.

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[1] Enacted in 1998, the Workforce Investment Act (WIA) replaced the Job Training Partnership Act (JPTA) as the primary source of funding local employment and training efforts. Under WIA, all local workforce areas in the United States (currently there are over 600 as determined by the U.S. Department of Labor) are required to develop a "one-stop" delivery system that is designed to make workforce development programs available at one location , i.e. one-stop centers. Workforce Investment Boards replaced "private industry councils (PICs) as the local decision-making body.

[2] The EITC is available to households earning between $11,000 and $34,692 (depending on family size). The tax credit not only offsets the taxes that are

owed, but can also result in a refund. For a family with two children earning $19,000 last year, the federal income tax liability would be approximately $400. The family is eligible for an EITC of $2,763, which means that the federal government pays them back the $400 they paid in income taxes and gives them an additional cash refund of approximately $2,363.

[3] These include areas in Rosebud, SD; Cheyenne River, SD; Omaha, NE; Standing Rock, ND; Standing Rock, SD; Cheyenne-Arapaho, OK; Red Lake, MN; and San Carlos, AZ.

[4] For more information on the Annie E. Casey Foundation's *National Tax Assistance Campaign for Working Families*, visit www.eitc.info

[5] Alan Berube, "Rewarding Work Through the Tax Code: The Power and Potential of the Earned Income Tax Credit," Brookings Institution Center on Urban and Metropolitan Policy: Washington, D.C., 2001 (http://www.brookings.edu/es/urban/eitc/abstract.htm)

[6] For more information, please call First Nations Oweesta Corporation at 605/455-1700. To receive free copies of *Building Native Communities*, call 800/659-7557 or download from: http://www.oweesta.org/

Biography

Ana Marie Argilagos works in the Planning, Research and Development Unit at the Annie E. Casey Foundation in Baltimore, Maryland. She provides strategic direction for the foundation's initiatives in the southwest border region and in American Indian communities. Before coming to the foundation, she served as special assistant to the Department of Housing and Urban Development deputy secretary. While there, Ms. Argilagos advised on a wide array of policy issues and played a central role in shaping the President's Interagency Task Force for the Economic Development of the Border. Ms. Argilagos holds a master's in public administration from the Kennedy School at Harvard University.