



# REINVESTMENT ALERT

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## **COMMUNITY-BANK PARTNERSHIPS CREATING OPPORTUNITIES FOR THE UNBANKED**

Lower-income consumers often experience severe challenges to accessing basic financial services. This Alert describes how the Financial Services Task Force of the Chicago CRA Coalition, in partnership with Chicago area banks, is expanding opportunities for lower-income consumers to establish deposit accounts, improve their financial literacy, and develop assets. The Alert begins with explanation of the importance of asset development and the role that being unbanked and/or having poor financial literacy skills plays in impeding wealth accumulation. It then identifies account features that the Coalition determined are integral to lifeline banking for lower-income consumers, including the role of marketing and financial literacy training. Partnerships between the Services Task Force of the Chicago CRA Coalition with Bank One, LaSalle Bank, Old Kent Bank, and Charter One Bank FSB are then described, and opportunities and challenges that other organizations may face in developing similar partnerships are outlined. The Alert ends with a description of how to evaluate lifeline banking programs.

### **INTRODUCTION**

#### **The Importance of Asset Development**

Asset or wealth accumulation is a measure of an individual's or family's accumulated assets or resources. It is a source of future income, and can leverage the accumulation of additional assets such as a retirement fund, a home or a small business. It is widely known that the distribution of income is uneven. However, asset distribution is even more disproportionate. While the top 10 percent of Americans commands 40 percent of national income, the top one-percent controls 90 percent of assets.

Why does this occur? Obstacles to asset development involve a complex combination of income disparities, social, public and corporate policies, and a strong consumer culture. This Reinvestment Alert addresses two additional barriers to asset development for lower-income consumers: the prevalence of consumers with no or limited access to the financial mainstream and poor financial literacy skills.

#### **The Unbanked**

Many low-income consumers have little or no experience with banks. According to the Federal Reserve Board's 1995 Survey of Consumer Finances, approximately 10 million households do not have savings

or checking accounts with a financial institution.<sup>1</sup> Racial minorities, female-headed households, lower-income persons, young people, and families living in rural communities are disproportionately represented among the ‘unbanked’.

High percentages of unbanked families are particularly found in urban communities like Chicago. The 1999 Metro Survey of the Metro Chicago Information Center (MCIC) found that:

- Thirty-two percent of Chicago residents lack a checking account and 37 percent do not have a savings account; and
- Thirty-seven percent of lower-income City residents do not have a checking account and over 40 percent are without savings accounts.<sup>2</sup>

Minority and lower-income consumers are more likely than other consumers to be dissatisfied with the quality of their financial services. When asked by the 1999 Metro Survey how well their banking needs were being met, 16 percent of African Americans and 25 percent of Latinos responded ‘not too well’ or ‘not at all,’ compared to only 7 percent of whites. Further, only 42 percent of lower-income residents believe their local banking services are excellent or good. Almost 60 percent of upper-income residents are pleased with local banking services.<sup>3</sup>

Consumers remain ‘unbanked’ or dissatisfied with mainstream financial institutions for varied and often inter-related reasons. They include:

1. **Costs:** It can be prohibitively expensive for lower-income people to maintain bank accounts. They may face high minimum balances, initial deposits or monthly service fees.
2. **Credit status:** Some banks conduct credit checks and scoring for applicants. Consumers with little or no credit or a slightly blemished credit record can be disqualified from opening a bank account.
3. **Inconvenience:** Bank branches have abandoned many inner-city communities. Bank mergers involving institutions with overlapping branch locations have caused a decline in the number of bank branches per capita in lower-income communities as the newly merged institutions close branches to reduce costs.<sup>4</sup> Further, banks often have inconvenient hours and are not accessible on evenings and weekends.<sup>5</sup> Finally, residents of lower-income communities may also have problems accessing automatic teller machines (ATMs).
4. **Trust:** A study of the unbanked by John Caskey found that 18 percent of respondents agreed with the statement “we are not comfortable dealing with banks.”<sup>6</sup> Some ‘unbanked’ consumers may have attempted to access bank services in the past and been repelled for a variety of reasons. Some may worry that financial institutions share account information with others, including creditors. The

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<sup>1</sup>Doyle 1998.

<sup>2</sup>Metro Chicago Information Center 1999.

<sup>3</sup>Ibid.

<sup>4</sup>Bostic and Canner 2000.

<sup>5</sup>Rand 1999.

<sup>6</sup>Bostic and Canner 2000.

unbanked may be concerned that deposits will be attached to pay for outstanding judgements. In fact, in a 1996 study, one in five respondents indicated that lack of privacy was the major reason they did not have a checking account.<sup>7</sup> This is especially true for recent immigrants and refugees from countries with unreliable banking histories. In addition, poor communication regarding account guidelines can also lead to misunderstandings for account holders. Some consumers may feel uncomfortable continuing a relationship with a bank that has denied them a loan.

5. **Financial literacy:** Lifeline banking requires significant person-to-person training and education on balancing checkbooks, planning monthly finances, using an ATM, etc. Without the skills to manage accounts, consumers may be faced with high fees for non-sufficient funds and other transactions. They might become frustrated and close their accounts. In addition, some consumers are uncomfortable using electronic technologies that are associated with many lower-cost accounts, including ATMs, Point of Sale terminals (POS), and Internet banking.
6. **Lack of information or poor marketing:** Many banks have affordable accounts that are accessible to lower-income consumers. However, the account features are not well marketed to lower-income communities and people are not aware of affordable options.

Owning a deposit account helps families manage their resources, however limited those resources are. Funds held in these accounts are safe from theft, they are federally insured, and may earn interest. Checking and savings accounts help people maintain financial records and encourage saving habits. Managing an account also allows consumers to build a credit history that can qualify them for mortgage loans, credit cards, and other credit products. Lower-income people with deposit accounts are more likely to have a major credit card, a first mortgage or a car loan than low-income people who do not have accounts.<sup>8</sup>

Consumers without a relationship with a mainstream financial institution also pay high transaction fees at check cashers. Almost 60 percent of lower-income Chicago residents surveyed by MCIC without checking accounts use check cashers to cash checks and purchase money orders.<sup>9</sup> According to a Woodstock Institute's study, check cashers charge up to three times as much as financial institutions for basic financial services but do not provide key services like savings accounts and financial advice.<sup>10</sup> In addition, some check cashers offer predatory services with exorbitant fees, including payday loans. (Payday loans are high cost, short-term loans that are secured by a postdated check.<sup>11</sup>) Higher-income consumers have access to credit cards to meet short-term expenses, at significantly lower interest rates.

Patronizing a check casher should not be viewed as an irrational choice. Consumers are often not aware of the surcharge involved in using check cashers. In addition, check cashers have several advantages that are attractive to lower-income consumers:

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<sup>7</sup>Caskey 1997.

<sup>8</sup>Ibid.

<sup>9</sup>Metro Chicago Information Center 1999.

<sup>10</sup>Mullen, Bush, and Weinstein 1997.

<sup>11</sup>For more information, see Woodstock Institute's Reinvestment Alert Unregulated Payday Lending Pulls Vulnerable Consumers Into Spiraling Debt by Marti Wiles.

- Check cashers are conveniently located in lower-income communities. Many have extended evening and weekend hours. In fact, check cashers outnumber banks in some Chicago inner-city communities by up to 12:1.<sup>12</sup>
- Services are provided by a teller versus electronically.
- Conducting financial transactions at a check casher allows the consumer to avoid the payment of a bounced check or non-sufficient funds (NSF) fees.

### **Financial Literacy<sup>13</sup>**

Access to banking products is only part of the asset development landscape. It is increasingly difficult for consumers to navigate the complicated financial services industry. Managing personal finances is further exacerbated by low financial literacy. According to the 1992 Survey of Consumer Finances, over one-half of unbanked households held a bank account at one time.<sup>14</sup> The accounts may have been closed due to problems managing them, such as frequent overdrafts, problems understanding funds availability or other restrictions. A 1993 survey found that 21-23 percent of adults demonstrate Level I or basic literacy skills.<sup>15</sup> They cannot perform basic arithmetic operations beyond simple addition and would be unable, for instance, to calculate the difference between two differently priced show tickets.

People with lower levels of literacy are, in general, likely to be living in poverty. A substantial number are immigrants or have physical, mental or health problems. When barraged by solicitations for credit cards, payday loans, or home equity loans, these consumers may not have the skills needed to make informed decisions. Poor financial literacy can also have a detrimental impact on personal financial management—affecting the consumer's ability to own a home, find employment, buy a car to get to work, purchase life insurance, rent an apartment, or pay tuition for education. As a result, it also effects a consumer's family and, in turn, the entire community.

### **Model Lifeline Account Features**

Establishing checking and savings accounts with traditional financial institutions can be a major challenge for lower-income consumers. The following features of a model lifeline checking account<sup>16</sup> mitigate the cost, credit status, and inconvenience<sup>17</sup> barriers that many unbanked consumers face:

- No credit check
- Ten dollars or less opening requirement

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<sup>12</sup>Mullen, Bush, and Weinstein 1997.

<sup>13</sup>A Woodstock Institute report "*Tools for Survival: An Analysis of Financial Literacy Programs for Lower-Income Families, 1999*" describes the state of financial literacy and provides information on financial literacy resources.

<sup>14</sup>Cited in Dunham 1997.

<sup>15</sup>Flack 1999.

<sup>16</sup>Savings accounts are also an important tool for asset development. However, we concentrate on checking accounts because they can be used to accept deposits and pay bills and are thus a more advantageous alternative to check cashers.

<sup>17</sup>The Chicago CRA Coalition also encourages increased access to financial services. Coalition agreements with banks generally include provisions for maintaining and/or increasing branches and full service ATMs in lower-income communities.

- No minimum balance
- No monthly service fee
- No teller charges
- Unlimited check writing
- Free withdrawals from bank-owned ATM machines
- Six free non-bank ATM transactions per month
- Promotion of direct deposit of paychecks and government benefits

Issues of trust, low financial literacy, and marketing barriers are also included in the model account. The Task Force recommends that banks should work in partnership with community organizations and other nonprofits to provide financial literacy workshops and counseling. The workshops, which can also be used to develop trust and market bank products and services, should include the following:

- Budgeting and personal finance management skills.
- Tools to make informed decisions when choosing accounts, applying for loan products, or credit cards, etc.
- Skills needed to manage accounts, such as balancing checkbooks, managing funds availability timetables, and using electronic banking services.
- Information on investment and savings options.

Financial institutions' marketing of these new products should include not only information on account features and advantages, but should also include outreach and information on how the products are preferable to check cashers and the other benefits of a mainstream banking relationship. In addition, marketing strategies should be developed with community-based organizations and in cooperation with organizations involved in consumer credit issues. Targeted marketing efforts, such as community newspapers and radio ads, should be considered as well.

### **COMMUNITY – BANK PARTNERSHIPS TO PROMOTE BANKING OPPORTUNITIES FOR LOWER-INCOME CONSUMERS**

The Chicago CRA Coalition negotiates and monitors agreements with banks to increase lending, services, and investments in lower-income communities in the Chicago region. The Coalition, which has participants from community-based and other nonprofit organizations, is convened by Woodstock Institute and headed by a Steering Committee. The Services Task Force focuses on the availability of financial services for lower-income consumers, including branch and other service locations, financial literacy, and lifeline banking. Other task forces address economic development, housing, and community development grants and investments.

#### **Bank One Alternative Banking Program**

During the Summer of 1998, Bank One announced that it would purchase First National Bank of Chicago (First Chicago Bank/NBD). At the time of the merger, First Chicago Bank/NBD was the largest retail bank in the Chicago market, with 113 branches and deposits of over \$36 billion. In addition, First Chicago Bank/NBD has the largest ATM network in the region. Prior to the merger, the Chicago CRA Coalition negotiated an agreement that increased lending, services, and investments in

lower-income communities in the 9-county Chicago region. With the exception of Detroit and Chicago, Bank One declined to negotiate agreements in other markets impacted by the merger, which included Ohio and southwestern states.

The Coalition had a long history with First Chicago Bank. The Coalition, and other community groups, first negotiated an agreement with the Bank in 1984. The initial agreement was renewed every five years, and in 1995 the Coalition negotiated a new agreement when First Chicago Bank merged with the National Bank of Detroit (NBD). Since 1984, the agreements have been monitored in quarterly neighborhood review board meetings between bankers and community activists, including members of the Chicago CRA Coalition.

Members of the Chicago CRA Coalition wanted to encourage the bank to increase services to unbanked consumers, in addition to increasing small business and residential lending and community development grants and investments. The Chairman of the Board of the bank was very supportive of lifeline banking and gave his personal assurance that the bank would undertake a prompt and good faith effort to establish a pilot program to extend financial services to lower-income consumers. That part of the agreement reads:

*Banking the unbanked: Establish and market lifeline accounts: The bank will convene a group to study the feasibility of offering an Access Account, with the goal of implementing this account.*

In addition, Bank One agreed to increase marketing efforts of lifeline accounts to people who receive their federal and state benefits electronically. The Bank will do this through a variety of means, including contracts or grants with community organizations.

The major barrier with the original First Chicago accounts was a restrictive credit scoring that resulted in only those consumers with excellent credit ratings being approved for checking and savings accounts. The bank had a very generous funds availability policy, which they asserted worked like a line of credit, because account holders had access to deposited funds before the funds were cleared by the payee's financial institution. The Bank argued that it had to thoroughly evaluate applicants for accounts due to the potential for customers to exploit this liberal funds availability policy.

From the Fall of 1998 until the Spring of 1999, members of the Chicago CRA Coalition Services Task Force and Woodstock Institute staff met with Bank One community reinvestment, risk management, community outreach and education, legal, and retail operations staff. The goal of the meetings was to plan for the establishment of an access or lifeline banking product. At those meetings the following issues were discussed in preparation for developing the Alternative Banking Program (ABP):

- Account Features
- Regulatory And Operations Barriers
- Identification of Pilot Locations
- Financial Literacy And Marketing

**Account Features:** The Alternative Banking Program is a safe, convenient and inexpensive alternative to using check-cashing services. Customers who do not meet Bank One's traditional credit scoring criteria, due to borderline credit or no credit history, may be eligible to establish an ABP account due

to its more flexible credit scoring criteria. Applicants may not, however, have any outstanding fees owed to another bank for a deposit account.

ABP is not a separate banking product. It incorporates standard Bank One accounts with features similar to a model lifeline account:

- Ten dollars opening deposit
- Minimum balance: as low as \$0
- Service fee: as low as \$0, depending on account
- Unlimited check writing
- Unlimited use of Bank One ATMs
- Some free teller transactions, depending on account
- Free financial literacy training

The account features were designed to address many concerns that lower-income unbanked consumers express. First, it is low-cost; depending on the type of account chosen, there may be no monthly fees. Second, it is convenient. Although an ABP account can be opened at only six Bank One branches where the pilot is operating, once the account is opened, there is no limit on where services can be accessed including Bank One branches, ATMs or point-of-sale terminals in retail stores. Third, financial literacy workshops conducted in cooperation with community partners were established to demonstrate cost savings over check cashers, improve financial management skills, educate people about account terms, and increase their comfort with mainstream financial institutions. Fourth, although applicants with a credit history must have suitable credit scores, people with no or borderline credit may open accounts.

In exchange for a more flexible credit scoring criteria, the Bank did establish some modest restrictions on the ABP. However, after one year, account holders can apply to upgrade their accounts to traditional account products. The restrictions on ABP accounts are:

- All checks that will cause a negative balance are returned--no overdrafts are allowed.
- ATM withdrawals are limited to \$50/day.
- ABP has a more restrictive funds availability policy than traditional Bank One accounts. Funds availability for ABP is consistent with Federal Reserve Regulation C, which means that account holders may not be able to access funds deposited by check for up to two business days (as compared to one business day for Bank One's other accounts). However, ABP allows immediate access to cash and direct or electronic deposits.

**Regulatory and Operations Barriers:** Bank personnel were concerned that changing the credit scoring criteria for the ABP accounts would violate Federal Reserve Regulation B-Equal Credit Opportunity. They contended that Regulation B compels them to require all customers to meet the same credit criteria. In other words, they believed that if one set of customers was not required to pass credit scoring thresholds, no customers could be asked to do so.

Discussions with Regulators from the four bank regulatory agencies provided clarification. The Coalition was informed that Regulation B applies only to credit accounts, not deposit accounts. Further, the Regulators pointed out that they encourage the development of flexible account requirements for the provision of services to lower-income consumers as an example of community development service.

There were also concerns about operations. Since ABP is not a separate account but a mix of features from different accounts already offered by the bank, the bank needed a system to identify ABP account

holders in order to enforce account restrictions. Bank personnel were able to develop an electronic system for tagging ABP accounts.

One of the innovations that the Bank developed in cooperation with the Chicago CRA Coalition was to re-write its funds availability policy statement. The statement, which describes the features of the account, funds availability, and other policies, was translated from 'legalese' into standard language, making it understandable for readers of all levels. In addition, many of the materials were also translated into Spanish.

Chicago CRA Coalition members were concerned with the role of bank personnel. A major component of the success of the program hinges on the enthusiasm of bank staff, who should encourage customers to establish ABP accounts. For instance, one of the recruitment techniques is for tellers to encourage people who cash checks at the Bank to apply for ABP. In addition, the Bank has in-house communication mechanisms to inform staff of new programs.

**Identification of Pilot Locations:** The Bank and members of the Chicago CRA Coalition invested significant time in researching and selecting the initial pilot locations. Factors included Bank One branch locations, the number of lower-income people in the pilot area, the percentage of consumers without checking or savings accounts, and the existence of community partners to assist with marketing and financial literacy training. Not all unbanked people are alike—they are a diverse group. Therefore, the Coalition and the Bank chose demographically diverse communities in order to learn the efficacy of tailoring strategies to different communities. Using these factors, the following communities were chosen:

- **Avondale/Logan Square:** This site rolled out ABP in April 1999, one month after the Englewood/Chicago Lawn site. Avondale/Logan Square is a primarily lower-income, Hispanic community on Chicago's near-north side.
- **Englewood/Chicago Lawn:** The branch in this community was the first to pilot the ABP in March 1999. Englewood/Chicago Lawn is a lower-income, African American community located on Chicago's south side.
- **Jeffrey Manor/Calumet Heights:** This community was added to the pilot when Bank One opened a new branch in March 2000. Jeffrey Manor/Calumet Heights is a moderate-income, racially diverse neighborhood located in Chicago near distressed south Cook County inner-ring suburbs.
- **North Lawndale:** The ABP pilot started in Lawndale in April 1999 when Bank One opened a new full service branch in a Dominick's supermarket. Lawndale is a lower-income African-American community located southwest of downtown Chicago. This site gave the group the opportunity to learn how this program could function in a non-traditional branch setting.
- **Ravenswood:** This ABP pilot began in October 1999. Ravenswood is a mixed-income, ethnically diverse community located northwest of downtown Chicago.
- **Rogers Park:** A diverse mixed-income community on the far northeast side of Chicago, Rogers Park has a significant number of residents who use Section 8 housing vouchers. ABP was implemented at the same time as the Ravenswood pilot.

**Table 1**  
**Community Profiles of ABP Pilot Locations**

	<b>Population</b>	<b>White</b>	<b>African American</b>	<b>Hispanic</b>	<b>Median Household Income</b>	<b>Percent Below Poverty</b>	<b>Percent Public Assistance</b>
Avondale/Logan Square	95,936	44%	8%	67%	\$21,737	28%	6%
Englewood/Chicago Lawn	58,370	1%	98%	1%	\$22,744	29%	9%
Jeffrey Manor/Calumet Heights	98,444	29%	53%	28%	\$28,115	18%	5%
North Lawndale	49,998	1%	99%	1%	\$13,732	43%	12%
Ravenswood	83,248	64%	3%	27%	\$26,607	16%	3%
Rogers Park	57,348	55%	27%	20%	\$23,435	19%	4%

1990 Census zip code data

**Marketing and Financial Literacy Training:** Although some separate marketing strategies were used (i.e., door hangers describing ABP and its advantages over check cashers, and a promotional raffle), most of the efforts to market ABP were part of financial literacy workshops sponsored with community-based and other nonprofit organizations. The Chicago CRA Coalition worked with the Bank to identify nonprofits to partner with the Bank to sponsor workshops. The community partners play a crucial role. They are responsible for identifying workshop topics, locating suitable space, etc. Banks often have difficulty attracting lower-income consumers to workshops due to many of the difficulties people have experienced with banks in the past or for other reasons. The community partners therefore market literacy workshops, often in conjunction with homeownership, small business, or other programs. The Bank has also had great success with community partners that convene consumers on a regular basis, such as English as a Second Language (ESL) classes.

Bank One has also experienced success in integrating its financial education curriculum into existing programs at job training agencies throughout Chicago. Bank One presents its financial education material as a part of participants' job readiness and/or vocational skills training. Since many of these participants will be gaining both employment and an increase in their income in the near future, Bank One has found this audience to have a greater demand for and desire to learn personal money management skills and receive an introduction to banking.

Much of the curriculum offered in the workshops was part of Bank One's 'ABCs of Banking' education workshop on basic personal finance management. However, Chicago CRA Coalition members also identified the need to include basic financial management topics. Interactive classroom exercises were redeveloped to encourage more class participation. Topics include:

- Financial goal setting
- Basics of budgeting
- Importance of saving
- Understanding how financial institutions work
- How to pick and open an account
- Managing a checking account (how to write checks, make deposits, balance a checking account, read a statement, etc.)

- Understanding funds availability policies
- How to use an ATM

**ABP Progress:** The first pilot site rolled out ABP in March 1999 in Englewood/Chicago Lawn. ABP is now offered in five other Chicago communities. ABP is still in the pilot stage and therefore it is very difficult to draw conclusions regarding customer satisfaction, bank profitability and other factors. However, the ABP program has great promise.

Within a year, almost 1,000 checking accounts have been established, along with over 500 savings accounts. Most of the accounts have been maintained, with a retention rate of over 80 percent. All of the account holders would have been ineligible for traditional Bank One accounts--mostly due to lack of a credit history. The average account balances are relatively high--almost \$600 for checking accounts and over \$1,300 for savings accounts. In addition, the Bank has cross-sold other products to ABP customers, including consumer loans, certificates of deposit, and installment loans.

The bank staff has also sponsored several financial literacy workshops. It has partnered with several nonprofit organizations, including community development corporations, schools, job-training programs, neighborhood block groups, and ESL classes to provide education on basic banking and other topics and to introduce information on ABP.

Program evaluation criteria were identified during the planning phase of ABP (see conclusion for more information). Bank staff and Services Task Force members meet regularly to review information on account activity, manager and customer relations staff experiences with ABP, and financial literacy workshops. Bank staff members periodically contact account holders by phone to invite them to financial literacy workshops and to answer questions. Further, Bank One is currently holding focus group meetings with ABP customers to learn how the program can be improved, identify what customers like or dislike about the program and to find out how the bank could serve ABP customers' other financial service needs. By May 2000, only a handful of ABP customers had participated in a focus group; therefore conclusions regarding customer satisfaction are not available at this time.

### **Other Bank Partnerships**

The Coalition has also developed relationships with Old Kent Bank, Charter One Bank FSB, and LaSalle Bank. Unlike Bank One, these banks have accounts that meet many of the criteria for lifeline checking accounts.<sup>18</sup> In these cases, the Services Task Force has helped or will help the banks to (1) develop financial literacy curricula suitable for lower-income consumers, and (2) establish relationships with community partners to identify workshops topics and market and co-sponsor workshops.

**Old Kent Bank:** During the summer of 1999, the Coalition negotiated a CRA agreement with Old Kent Bank. The Coalition first negotiated an agreement with Old Kent in 1998 when it purchased Evergreen Bank. In 1999, Old Kent purchased Pinnacle Bank, a \$970 million bank with 11 branches in Chicago and the southern inner-ring suburbs. Old Kent currently has 230 branches in Michigan, Illinois, and Indiana. The Coalition did not ask the Bank to develop a new account. Old Kent had two checking products that had many of the features of a model lifeline account: ActionBank and Budget Checking.

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<sup>18</sup>Savings account criteria and features were also discussed. However, the Financial Services Task Force concentrated its efforts on checking accounts to facilitate bill paying by account holders.

Neither account requires a credit check or a minimum initial deposit or balance and both include a free Check Card. ActionBank is free for those account holders who have direct deposit of paychecks or government benefits, and includes unlimited check writing. Budget Checking has a low monthly fee and includes 10 checks per month at no additional charge.<sup>19</sup> In the 1999 agreement, the bank agreed to:

*...promote ActionBank and Budget Checking through financial literacy workshops and counseling. Workshops will be conducted in cooperation with community groups and members of the Chicago CRA Coalition.*

Further, Old Kent agreed to promote direct deposit of paychecks and government benefits through financial literacy workshops at branches located in or near low- or moderate-income communities.

Since signing the agreement, Old Kent has developed a financial literacy curriculum in cooperation with the Services Task Force of the Coalition. In addition, the Coalition has identified potential community partners and helped the bank procure suitable learning materials.

**Charter One Bank FSB:** Charter One Bank FSB, a \$20 billion savings and loan bank headquartered in Cleveland, purchased St. Paul Federal, a \$6.2 billion bank with 58 branches throughout the Chicago region. This was the Coalition's first experience with Charter One, which has 211 branches in five Midwest and northeast states. The Coalition relied on advice and counsel from Cleveland-based community reinvestment groups who had experience with the bank.

The three-year agreement was signed in August 1999 and terminates in December 2002. Charter One agreed to:

*... promote the Totally Free Checking Account through financial literacy workshops and counseling which will be conducted in cooperation with community groups and members of the Chicago CRA Coalition.*

The Totally Free Checking Account does not require a credit check, has no monthly fee or check writing charges, and has unlimited-check writing privileges.<sup>20</sup> The Financial Services Task Force is meeting with bank staff to discuss details of implementing the program.

**LaSalle Bank:** LaSalle is one of the largest banks in the Chicago region. LaSalle Bank FSB and LaSalle National Bank, subsidiaries of Netherlands-based ABN AMRO Bank, recently merged their charters. LaSalle currently has over \$44 billion in assets, 120 locations, and 675 ATMs in Illinois.<sup>21</sup> LaSalle's Direct Checking account meets many of the requirements of a model lifeline account. There is a \$0 minimum balance and initial deposit when tied to electronic deposits and the account has no monthly fee as long as the account balance does not fall below \$0.<sup>22</sup>

The primary purpose of the meetings between the Services Task Force and LaSalle was to discuss marketing and financial literacy. The Services Task Force hosted a series of meetings with LaSalle

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<sup>19</sup>Old Kent Bank 2000.

<sup>20</sup>Charter One Bank FSB 1999.

<sup>21</sup>LaSalle Bank 2000b.

<sup>22</sup>LaSalle Bank 2000a.

community reinvestment and retail banking staff that resulted in the development of a comprehensive curriculum for lower-income consumers. It includes several modules that take about 60-90 minutes each to teach. Subjects include: budgeting; disadvantages of check cashers; predatory and payday lending; banking functions; deposit account basics; LaSalle products; debt management; credit; mortgages; and investment and retirement planning. The curriculum will soon be available in Spanish.

The Financial Services Task Force helped LaSalle establish a very fruitful partnership with Chicago Commons. Chicago Commons is a multi-service settlement house that provides job-training services through its Employment and Training Service Center (ETC) to lower-income people moving from welfare to work. The Bank taught its financial literacy curriculum in eight classes over a period of about two weeks. Approximately 32 students participated in two training courses, which culminated in a trip to a local LaSalle branch where 27 savings accounts were opened. The partnership is ongoing.

The Bank has made a commitment to work with other community organizations to provide LaSalle trainers. Community organizations that offer financial literacy training directly may borrow the program, which is available in slide format. A LaSalle banker will also be on hand to discuss LaSalle products. The Bank is working with the Chicago CRA Coalition on organizing two citywide orientation sessions to market the program to community and other non-profit organizations.

## **OPPORTUNITIES AND CHALLENGES FOR LIFELINE BANKING**

### **Opportunities**

This may be an optimal time for community organizations to establish partnerships with banks to provide affordable financial services and financial literacy for lower-income consumers. Recent technological advances and federal and state programs such as Individual Development Accounts (IDAs) and electronic funds and benefits transfer (EFT and EBT) provide new opportunities to promote financial services for unbanked consumers. In addition, federal CRA regulations, the new 'First Account' initiative proposed by President Clinton, and the growth of the community development financial institutions (CDFI) industry could also help decrease the number of unbanked consumers. Last, community groups and legislators across the country have become concerned about consumer privacy in this era of financial modernization, and are discussing ways to protect privacy while extending bank services.

**Technological Advances:** ATMs, phone banking, electronic bill payment services, Internet banking, and other technological advances have reduced the cost of providing financial services. However, primarily middle- and upper-income households use most of these services. There is great potential to harness these advances to benefit lower-income consumers as well. For instance, biometrics or the use of thumbprint or iris scan is a low-cost alternative to personal identification numbers (PIN) that can simplify electronic banking. Phone banking can also allow account holders to transfer funds, check account balances, and identify recent transactions.

**State and Federal IDA Programs:** Individual Development Accounts (IDAs) are matched-savings that encourage low-income people to save for home or small business ownership or higher education. Ownership of an IDA account is often the first access to mainstream financial institutions for program participants. According to a study of 14 IDA programs with over 1,300 participants, 56 percent of

participants do not have a savings account and 32 percent do have a checking account.<sup>23</sup> In addition, most IDA programs require financial literacy training that can be enhanced to discuss financial service products.

**State EBT and Federal EFT Programs:** Many states require that Temporary Assistance to Needy Families (TANF) and other benefits be transferred electronically through state Electronic Benefit Transfer (EBT) programs. In addition, the Federal government encourages electronic funds transfer (EFT) of social security and other federal benefits and has also developed low-cost Electronic Transfer Accounts (ETAs) in cooperation with financial institutions. EBT and EFT are opportunities to encourage lower-income people to allow their benefits to be directly deposited into a low-cost or free bank account.

**CRA Service Test:** In 1995, the Community Reinvestment Act (CRA) was amended to concentrate on bank performance in three areas: lending, investment, and services. Creative and innovative bank products and services, such as the establishment of lifeline accounts and financial literacy workshops, can help a bank achieve a Satisfactory rating under the Service Test. The Chicago CRA Coalition continues to encourage bank regulators to strengthen the Service Test by requiring banks to collect and report information on the income and race of deposit account holders.

**First Accounts:** In his fiscal year 2001 budget, President Clinton included First Accounts that would help lower-income people establish affordable financial relationships with mainstream financial institutions. First Accounts are to be piloted by the Treasury Department in cooperation with financial institutions to help unbanked individual establish accounts. They appear to rely on electronics to allow consumers to make deposits and pay bills. A major component of First Accounts involves increasing access to ATMs in lower-income communities by locating them in sites such as post offices. Under the proposal, The Treasury would also work with community-based organizations to provide financial literacy training on establishing and maintaining accounts, managing household finances, and building assets.<sup>24</sup> The President allocated \$30 million for the initiative. In addition to First Accounts, the President also proposed the development of Retirement Savings Accounts (RSAs). RSAs, a complement to IDAs, are tax-deferred retirement savings accounts for lower-income families.<sup>25</sup>

**Community Development Financial Institutions:** Alternative financial institutions such as community development credit unions (CDCUs) focus on providing financial services and loans in lower-income communities. In addition, their emphasis on thrift and education make them ideal for reaching under-served markets.<sup>26</sup>

**Privacy:** The recent financial modernization legislation or the Gramm-Leach-Bliley (GLB) Act allows rapid and profound changes in the financial institution market by permitting the consolidation of

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<sup>23</sup>Sherraden, Johnson, Clancy, Beverly, Schreiner, Zhan, and Curley 2000.

<sup>24</sup>White House Office of the Press Secretary 2000.

<sup>25</sup>Dunham 1997 .

<sup>26</sup>For more information on CDCUs, see Woodstock Institute publications *Credit to the Community: The Role of CDCUs in Community Development*; *On the Move: An Analysis of Low-Income Credit Unions 1990-1996*; and *Building the Savings and Assets of Lower-Income Consumers: Examples from Community Development Credit Unions*.

insurance, banking, and securities industries. Although these firms will have the capacity to collect and share tremendous amounts of customer information, GLB provides few limits on sharing information.<sup>27</sup> The statute requires financial institutions to provide notices to customers about privacy policies, disclose information on the conditions under which they will share information, and allows consumers a very limited chance to prevent institutions from sharing private information with other institutions.<sup>28</sup> Representative Jan Schakowski (D-IL) and others have also proposed more restrictive federal consumer privacy legislation. In addition, several states, including New Hampshire, Massachusetts, and Utah have proposed privacy legislation that goes beyond federal protections.<sup>29</sup>

### **Challenges to Lifeline Banking**

**Financial Education and Marketing:** Banking the ‘unbanked’ must include creative educational and marketing efforts in order to overcome very pervasive and deep-seated concerns about financial institutions and to impart the skills required to manage accounts and help lower-income consumers develop assets. Education may also help lower-income consumers become more proficient at using advanced technological services.

**Losses to Financial Institutions:** The cost of providing services to lower-income consumers need be no higher than the cost of other products, particularly if electronic services such as direct deposit are encouraged. However, financial institutions may incur losses due to fraud or overdrafts until they have a better understanding of this market. Creative measures can be taken to mitigate losses as financial institutions experiment with new products and services, such as adjusting funds availability policies, requiring manager approval for cashing large checks, and additional staff training.

**Branch Personnel Training:** Based on the experience of the Chicago CRA Coalition, banks should focus on training line staff on banking products. This can help to increase customer comfort when applying for accounts and working out difficulties and can also help to decrease losses from staff not adhering to account criteria policies.

**Customer Satisfaction:** As with all bank services or products, customer satisfaction is a major factor of success. Regular follow-up, good customer service, and product and service referrals are crucial to retaining customers and cross-selling additional products.

**Access to Financial Institutions:** The geographic distribution of branches and ATMs in most areas is very uneven and has resulted in the lack of access in some lower-income communities. Community organizations must continue to encourage banks to provide more branches and ATMs in these areas. Groups should also persist in raising this issue with bank regulators.

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<sup>27</sup>Torres N.D.

<sup>28</sup>Katsanos 2000.

<sup>29</sup>Schroeder 2000.

## THE ROLE OF PROGRAM EVALUATION

Low-income consumers who are unbanked face increasing challenges in making ends meet and developing assets. The Chicago CRA Coalition's experiences with promoting lifeline accounts demonstrate that financial institutions can do more to serve this community.

These approaches to providing services for the 'unbanked' are relatively recent advances. As such, documentation of practices as well as program evaluation can enable program replication and can help iron out problem areas. Program evaluation should include the following:

### **Account Activity**

- Number of account applications received
- Number of accounts opened (by type)
- Number of accounts maintained (by type and number of months)
- Number of accounts closed (by type and reason)
- Account activity (i.e., fees incurred, number checks/month, number of teller visits, number of ATM transactions, number of accounts with direct deposit, average monthly balance, cost/ profitability)
- Customer satisfaction. Also, where they learned about account (survey)
- Manager experiences (survey/discussion with committee)
- Institution experience with losses and loss mitigation

### **Financial Literacy Training**

- Number of sessions offered (by topic and location)
- Number of participants (per session)
- Course evaluations
- Number of participants who opened accounts

### **Marketing**

- Number of presentations (by audience)
- Number of mailings (by audience)
- Number of flyers distributed at branches
- Number of ads in community newspapers
- Number of announcements in community newsletters
- Number of brochures distributed

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