Comptroller of the Currency
Administrator of National Banks

Community Developments

The OCC's community affairs newsletter

Focus on Retail Financial Services to Underserved Communities

—by John D. Hawke Jr., *Comptroller of the Currency*

One of the more exciting parts of my job, as Comptroller of the Currency, is the opportunity to visit many parts of the country where national banks are serving their local communities. Similarly, in my capacity as a board member of the Neighborhood Reinvestment Corporation, I have had the pleasure of reviewing first-hand many examples of the great work undertaken by Neighborhood Housing Services (NHS) across the country. Local NHS affiliates offer a range of financial services, including educational programs promoting financial literacy, homebuyer counseling, and mortgage lending. Yet, despite this exciting work and the progress that it has brought, I am continually struck by the fact that there are often numerous check-cashing outlets and other fringe providers, but precious few banks, in the inner-city communities I visit.

I strongly believe that there is a missed opportunity here for both consumers and banks. Households that do not have access to a bank are being shortchanged in their ability to accumulate wealth, lower transaction costs, and secure access to credit. In short, they cannot make the choice to participate in the benefits of the American financial system.

> *"Households that do not have access to a bank are being short-changed in their ability to accumulate wealth, lower transaction costs, and secure access to credit."*
> John D. Hawke Jr., *Comptroller of the Currency*

Nonbank institutions, such as check-cashing outlets, are clearly meeting some of the current needs of the unbanked profitably frequently at very high costs. However, traditional financial institutions may be better able to serve the broader needs of these households by providing access to savings instruments, relatively inexpensive transaction services, secure banking transactions, and protection against theft.

Unbanked and marginally banked consumers comprise a significant percentage of households in the United States. According to the Federal Reserve System's 1998 Survey of Consumer Finance, nearly 10

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Direct Deposit:
Using Technology to Reach the Underserved

—by Sam Frumkin and Karen Furst, *Office of the Comptroller of the Currency*

Technological Advances

Advances in technology during the past decade have provided banks with new means of delivering financial products and services to some of their customers. Although retail payments in the U.S. remain heavily paper-based, payment with electronic media, including credit cards, debit cards, and Automated Clearing House (ACH) transactions grew to more than 25 percent of noncash retail payments in 1996, up from 18 percent at the beginning of the decade. ACH transactions include items such as government payments, direct deposit transactions, scheduled automatic payment of bills, and batching of commercial transactions. The number of ACH transactions alone grew more than 400 percent during the 1990s.

While conventional wisdom is that technology based services are geared toward higher-end customers, banks should not overlook the possible benefits of using technology to reach low- and moderate-income consumers. According to data from the Federal Reserve Board's 1998 Survey of Consumer Finance, more than 50 percent of all U.S. families with transaction accounts participate in direct deposit, but only 14 percent of low- and moderate-income families do. Could this be an untapped market for banks? Some technological advances, when combined with established methods for making electronic payments, may provide banks with the means to initiate or deepen relationships with underserved consumers. Electronic delivery and payment mechanisms may lower the cost of providing financial products and services to underserved consumers — but other challenges and hurdles may remain. For consumers without experience in using electronic payments, assistance from banks and community educators can help them become more technologically adept.

> *"Direct deposit can serve as the first step on the technology ladder . . . . for low- and moderate-income families."*

Data suggest that direct deposit users tend to use more financial products from their primary financial institution than do non-users. Direct deposit participants tend to be higher users of credit services, thus generating more net interest income for financial institutions. If more low- and moderate-income families were to participate in direct deposit, banks might well have additional opportunities to increase their net interest income.

Direct Deposit of Payroll

Direct deposit can significantly lower transaction costs for employers and their employees, as well as provide savings for financial institutions that process the transactions. Research by the National Automated Clearing House Association (NACHA) found that businesses could save more than $1.25 on each payroll check processed by switching to direct deposit. Banks save an estimated $0.70 for each check deposited through the ACH network instead of through the teller window where as many as 10 sets of hands touch each paper deposit. Additional savings from reduced fraud are also likely by using the ACH network instead of paper checks.

Direct deposit can serve as the first step on the technology ladder toward further electronic delivery and use of funds for low- and moderate-income families. After trying direct deposit, consumers may then become more willing to use other electronic technologies for their banking services. For example, consumers who use direct deposit are more likely to own an ATM card than non-users. Although private sector participation in direct deposit has grown significantly — from approximately 11 percent in 1988 to 50 percent in the mid-1990s — opportunities still exist for increased participation.

Marketing financial services through the workplace may present banks with opportunities to expand the services they provide to their business customers as well as a way to establish new relationships with consumers. Customer education and support are likely to be key factors for success for both businesses and consumers that do not cur-

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rently use direct deposit. Therefore, banks will need to explain how the direct deposit of payroll works and the numerous advantages that it offers employers and employees.

To address a competitor's offer of a free checking account, First Claiborne Bank in New Tazewell, Tennessee, developed a plan to market free checking and direct deposit. The bank targeted some of the largest employers in the county and began its presentations by explaining the advantages to an employer in offering direct deposit. Key to success was that the bank offered a comprehensive package of support services aimed at minimizing any disruption in the employer's normal business. The bank also made presentations to employees at the worksite. Nine months after introducing this product, the bank achieved sign-up rates far greater than expected.

Surprisingly, survey and trade association data suggest that about one-half to two-thirds of consumers using check cashers may already have checking accounts at banks. With further education about direct deposit from banks, employers, and community organizations, these consumers might be able to realize benefits of conducting more of their financial business at banks. However, if a lack of financial education leads to overdrafts and excess use of ATMs, the resulting account charges may erase the cost savings of having a banking relationship. (See related article on Financial Literacy on page 15.)

Electronic Delivery Initiatives

Some products incorporating electronic delivery have been developed for use by unbanked consumers. The Treasury Department introduced the Electronic Transfer Account (ETA) to deliver Federal benefits and retirement payments electronically to consumers who previously did not have bank accounts. The ETA is available at more than 580 federally insured banks, savings and loans, and credit unions with over 6,100 locations in 49 states, the District of Columbia, and three U.S. territories. At these participating institutions, anyone who receives Social Security, Supplemental Security Income (SSI), Veterans Benefits, Railroad Retirement, Civil Service Salary or Retirement, or Military Retirement can open an ETA and receive their funds via direct deposit. In addition, the Treasury Department, in partnership with the U.S. Postal Service, unveiled a pilot project that places ATMs at post offices in geographic areas where access to financial services is limited. (For more information on the ETA and the Post Office ATMs, see the related articles on pages 17 and 18 respectively.)

Some banks, including Bank of America and Citibank, have developed electronic payroll products, which incorporate electronic salary deposit and ATM access, but do not provide true bank accounts. These products are generally designed to supplement a bank's cash management products offered to business customers. This type of electronic payroll product enables employees lacking a banking relationship to access their pay electronically and forgo the cost and inconvenience of cashing a paper check.

Striving to create a nationwide program to reach unbanked consumers using debit cards, Cardinal Bank in Northern Virginia has partnered with Directo Inc. to offer direct deposit payroll services. Through this product, the bank opens an account for the consumer in which their pay is deposited electronically. The employee receives a debit card that can be used nationwide at ATMs, and can transfer funds to individuals in other countries at lower fees than traditional wire transfers.

Linking Products and Payment Services

Electronic accounts are likely to be more useful, and more attractive, if they include electronic payment features. Electronic payment features could build on established mechanisms such as the ACH to pay recurring bills, including rent and utilities, or debit and ATM cards to obtain cash or make payments at retail outlets.

Electronic accounts can also be linked to other bank products. For example, Wells Fargo Bank has developed a product ("Direct Deposit Advance") that allows checking account customers who use direct deposit to obtain short-term advances of no more than 50 percent of their regular incoming deposit of up to a maximum of $300 directly from ATMs.

In addition, at least one firm is introducing high-tech ATMs and kiosks that provide Internet access, check cashing, and electronic bill payment services. InnoVentry is partnering with grocery stores nationwide to install these ATMs trade

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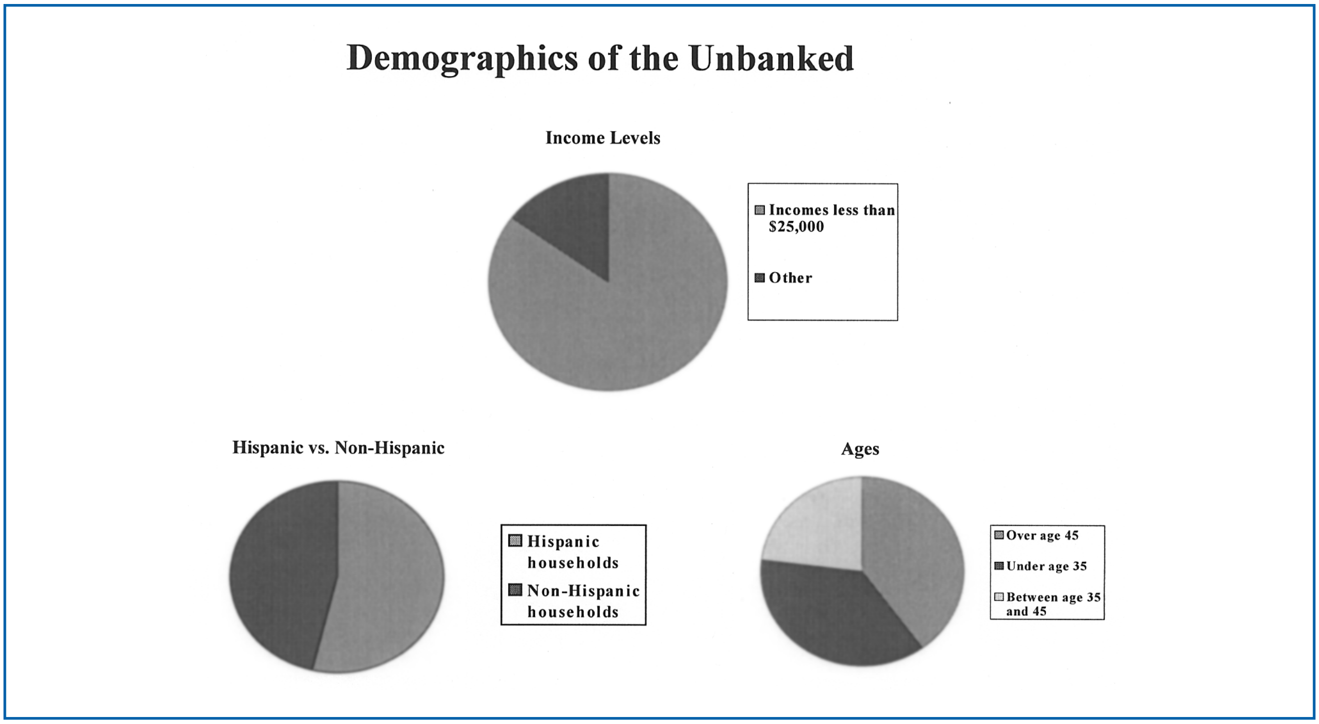

percent of American households do not have a deposit account at a financial institution. Over the course of a lifetime, estimates suggest that a person without a bank account could incur fees of more than $15,000 for cashing checks and paying bills. Furthermore, research by the Brookings Institution has shown that even after taking into account income and other factors, low-income families with bank accounts were 43 percent more likely to have positive net financial assets than families without.

Getting the unbanked through the doors of financial institutions will not happen without effort. There is significant anecdotal evidence that despite the higher transaction costs imposed by check-cashing outlets, they are the financial facility of choice for many low-income consumers. Nationally, the check-cashing industry has grown steadily over the past few years, increasing from 2,000 outlets in 1986 to approximately 6,000 outlets by 1995.

In this edition, we describe some of the initiatives banks are undertaking to bring more consumers into the banking system. You will learn about innovative basic banking accounts, individual development accounts (IDAs), and strategies to help consumers build credit histories. The newsletter also explores bank-related check-cashing services, and a "bank within a bank" model that caters to underserved urban markets. Looking to the future, one article investigates the benefits of using electronic delivery as a means of reaching the unbanked.

To reach this market, however, banks must overcome a variety of barriers. The key to success may well be increased consumer education, an area in which banks and community organizations have made some breakthroughs. Also, banks might consider joining forces to establish new institutions focusing on the provision of retail financial services. Overall, we applaud the efforts of banks, a few of which are highlighted in this newsletter, to improve access to financial services for all consumers. It is my sincere hope that national banks will take a leadership role in providing retail financial services in underserved areas, just as they already have with the provision of credit.

Who are the unbanked?

- Ten percent of American households do not have a checking or savings account.
- Twenty-two percent of families earning under $25,000 have no bank account at all.
- More than 80 percent of families without a checking account have incomes of less than $25,000.
- More than 60 percent of families without a checking account are minorities.
- 25 percent of minorities do not have a checking account.

*Source: 1998 Survey of Consumer Finances, Federal Reserve System.

Community-Bank Partnerships: The Chicago CRA Coalition and Bank One Forge the Alternative Banking Program

—By Marva E. Williams, *The Woodstock Institute*

The Chicago CRA Coalition and Bank One are expanding opportunities for lower-income consumers to establish deposit accounts and improve their financial literacy. The Coalition, which is convened by the Woodstock Institute and has dozens of participants in the Chicago region, developed an agreement with Bank One when it purchased First Chicago Bank NBD in 1998. The agreement increases lending, services, community development grants, and investments in lower-income communities in the Chicago region. Bank One also pledged to develop a pilot program to promote deposit services to unbanked consumers.

From the fall of 1998 until the spring of 1999, members of the Financial Services Task Force of the Chicago CRA Coalition and Woodstock Institute staff met with Bank One community reinvestment, risk management, community outreach and education, legal, and retail operations staff to plan the pilot program. The result is the Alternative Banking Program (ABP), a safe, convenient, and inexpensive alternative to check-cashing services.

ABP is not a separate Bank One product. First introduced in March 1999, ABP incorporates standard Bank One accounts with features similar to a model lifeline account:

- $10 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.

ABP was designed to address many of the obstacles that lower-income unbanked consumers face when establishing and managing deposit accounts. 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 obtained - Bank One branches, ATMs, or point-of-sale terminals in retail stores. Third, it helps consumers learn to manage checking accounts. Bank One conducts financial literacy workshops in cooperation with community partners to demonstrate cost savings over check cashers, improve financial management skills, and

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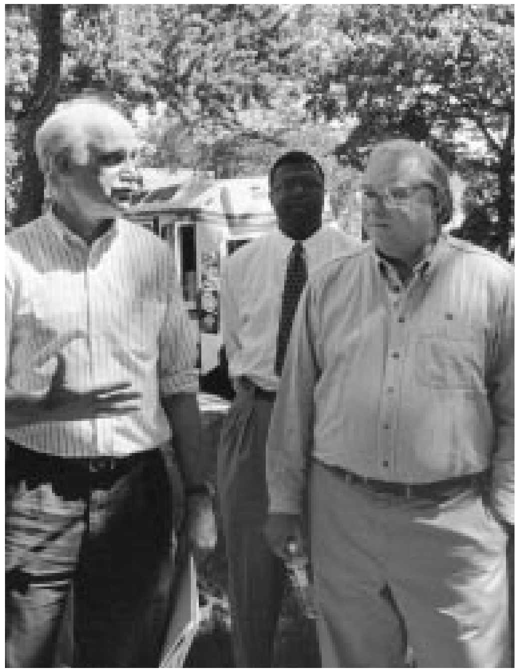
Table 1
Community Profiles of the Alternative Banking Program's Pilot Locations

	Population	White	African American	Hispanic	Median Household Income	Percent Below Poverty	Percent Public Assistance
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%

Comptroller Hawke Conducts Community Outreach

—by Bud Kanitz, *Office of the Comptroller of the Currency, Community Affairs Department*

"Precious few banks, many check cashers." These were the comments of Comptroller John D. Hawke, Jr. after a three-hour inner-city neighborhood tour in Chicago on June 22. The tour was hosted by Bruce Gottschall, executive director of the nonprofit Neighborhood Housing Services (NHS) of Chicago, where he has served since the organization was founded 25 years ago. Gale Cincotta, founder of National People's Action (NPA), co-hosted the tour. Mrs. Cincotta, acknowledged for her role as the "mother" of the 1977 Community Reinvestment Act, has served on the NHS Board of Directors since 1975.



Bruce Gottschall (left), and Comptroller Hawke (right) tour community development projects in Chicago.

The tour visited three Chicago neighborhoods: Back of the Yards, near West Side, and West Humboldt Park. At the first stop, Comptroller Hawke saw the handiwork of NHS firsthand; a two-story framed house on South Marshfield Avenue undergoing a gut rehabilitation. NHS staff chose this block because it is located in the middle of a deteriorated neighborhood that is slowly showing signs of stability. NHS organized the neighborhood residents to work with the Chicago police department to reduce crime and brought their expertise to make it an attractive place to live. Nearby, NHS purchased several abandoned FHA houses from the Department of Housing and Urban Development (HUD), renovated them, and sold them to tenants in the neighborhood. Also nearby, NHS purchased several empty lots and constructed new "infill" homes.

In March, Comptroller Hawke addressed the need for access to financial services at the annual conference of the National Community Reinvestment Coalition. "I'm convinced that financial institutions that stay the course and work to develop relationships in currently underserved neighborhoods will be rewarded for their patience with loyal customers who have the capacity to become good customers."

He added, "A substantial number of unbanked Americans may find that there's simply no bank to do business in their neighborhood. For example, in New York City last year, only 2.5 percent of all bank branches were located in low-income areas that housed more than 6 percent of the city's total households. In those areas, check-cashing outlets outnumbered bank branches by more than two to one. Some of the city's poorest neighborhoods are without any banking facilities - despite the fact that local economic activity may be quite vibrant."

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marked as Rapid Pay Machines (RPMs). After the initial enrollment, these machines use biometrics to identify repeat customers and provide completely electronic check cashing services.

Conclusion

Making technology available to underserved consumers opens doors to new possibilities. Reaching out to businesses and consumers in underserved markets that do not currently use direct deposit may provide deeper and more profitable customer relationships. To achieve these goals, additional outreach efforts are necessary to have underseved consumers participate more fully in the banking system. Once businesses and consumers increase their level of comfort with technology and electronic funds transfer, new options for paying bills and managing accounts electronically should then naturally follow.

Building Credit in Underserved Communities

—by David Bugea, *Executive Vice President, Arvest Consulting, Rogers, Arkansas*

The shortage of labor is a problem that has affected nearly every community in the United States during the unprecedented economic expansion of the 1990s. While high-tech industries often use highly educated immigrant professionals to fill workforce vacancies, many entry-level jobs are being filled with immigrants as low-skilled U.S-born workers move into higher-paying jobs. To address this shortage, during the 1990s many commercial processors of beef, pork, poultry, and fish found a solution to labor shortages in immigrant workers, particularly Hispanic workers from Mexico.

One bank in Rogers, Arkansas, Arvest Bank (formerly First National Bank), saw that this influx of Hispanic immigrants to this city in northwestern Arkansas was causing friction in the community. As recently as 1990, non-whites accounted for less than 5 percent of the population of Rogers. However, by 1998 Hispanics accounted for 12 percent of the city's population. A major element of the friction was that the first wave of workers consisted largely of married males of Mexican origin moving into the community without their spouses and children.

Once the management of Arvest Bank began to work on a solution to the friction, meetings with managers of poultry processing plants revealed that while Hispanic immigrants were filling vacancies, the workers' separation from their families was creating another problem in the form of increased absenteeism. A family emergency usually necessitated a lengthy trip to worker's home country, and during the December holidays many workers would quit their jobs and return to be rehired four to eight weeks later. The bank realized the solution was simple: home ownership would allow workers to move their families into the community. This would alleviate the problems of overcrowded rental units, negative perceptions of immigrants by long-term residents and excessive absenteeism caused by long-distance family relationships.

The bank developed five financial seminars entitled "Creating Hope in the Work Place," which were offered in poultry plants to provide financial education to the immigrant workers. The long-term goal of the seminar series is to facilitate home ownership. Because managers of the poultry processing plants realized that home ownership would stabilize the immigrant workforce, employers subsidized the seminars by allowing them to be conducted at plant sites, and by paying workers while they attended the seminars. Key to this program was the Credit Builder CD Loan, a creative, low-cost way for consumers to develop a credit history, in a manner that carries almost no risk for the bank:

- The borrower applies for a one year, $1,000 term loan with monthly payments of approximately $89;
- Funds from the loan ($1,000) are invested in a certificate of deposit (CD);
- The bank holds the funds in the certificate of deposit as collateral for the loan; and
- At maturity the borrower has an established credit history and $1,000 towards the downpayment and closing costs.

Note that this loan/CD arrangement did not require the bank to create a special product; rather, this arrangement was structured using existing, off-the-shelf banking services that the bank already offered. Most bankers are averse to risk when dealing with unknown borrowers; however, the bank realized almost no credit risk on these loans since the CD was used as collateral. Because the CD earns interest, the net interest cost to the borrower is less than $6. By repeating this process twice, borrowers would gain confidence in the lending process and in the banker, as these transactions also addressed regulatory requirements for the FHA type of home loans offered by the bank.

> *"The bank realized the solution was simple: home ownership would allow workers to move their families into the community."*
> David Bugea, *Arvest Consulting*

Since 1990, this proactive approach by Arvest Bank has resulted in over five hundred mortgage loans to immigrant families in Northwest Arkansas by the bank and its parent company. But to address the obvious question of safety and soundness, it is important to note that as of June 2000 none of these loans are in default. Approximately half of these loans were for newly constructed houses, and

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Linking Low-Income Families to the Financial Mainstream

—by Brian Grossman, *Council for Economic Development*

IDAs: An Innovative Tool

Individual Development Accounts (IDAs), matched savings accounts for low-income families, are a promising tool to help low-income American families save, build assets, and enter the financial mainstream. Over 200 financial institutions are currently involved in IDA initiatives throughout the country, including national and local banks, thrifts, and credit unions.

Similar to 401(k)s, IDAs help low-income families build the financial assets they need to achieve the American dream. IDAs reward the monthly savings of working-poor families who are trying to buy their first home, pay for post-secondary education, or start a small business. IDA holders earn matching funds from a variety of private and public sources for each dollar they save. As part of IDA initiatives, account holders also receive financial education and counseling.

Early evidence from the largest national evaluation shows that IDAs work. Data from the $15 million, privately-funded study, Downpayments on the American Dream Demonstration (ADD), coordinated by the Corporation for Enterprise Development (CFED) clearly show that low-income families can and do save. The more than 1,300 account holders studied have saved an average of $33 per month. Further, preliminary ADD data suggest that income does not have a statistically significant effect on the amount saved each month and that very poor households are saving in IDAs at a rate of 8 percent of their income.

Currently:

- About 250 communities have active IDA initiatives, with another 100 or more in development.
- More than 5,000 people are saving in IDAs.
- All but 6 states have some kind of IDA policies or demonstrations.
- Twenty-eight states have included IDAs in their state TANF plans (as allowed by the 1996 welfare reform law).
- Twenty-seven states have passed some form of IDA legislation.
- Five states have IDA legislation pending.

Further, the federal Assets for Independence Act-which authorizes $125 million over five years-is expected to expand the reach of IDAs to an additional 30,000 to 40,000 working-poor Americans by the year 2003.

Why Financial Institutions Should Consider IDAs

In addition to enhancing community relationships, there are several powerful reasons for financial institutions to become involved in IDA initiatives:

Expanding Customer Base

After only a few years, most IDA account holders will use their savings as leverage to purchase a home, finance an education, or start a business. Early indicators suggest that financial institutions involved in IDA initiatives have enjoyed success in cross-marketing non-IDA products to IDA savers. IDA initiatives provide unparalleled opportunity to build relationships with low-income families - many of who have previously been unbanked - who are learning sound financial skills and entering the economic mainstream for the long term. While there are initial costs associated with offering, opening, and maintaining IDAs, they are relatively low-transaction accounts and are often supported by active community-based organizations.

Deposit of Matching Funds

Most financial institutions involved in IDA initiatives hold not only the individual IDAs, but also the private and public money used to match IDAs. These low-transaction pooled accounts can total hundreds of thousands of dollars.

Community Reinvestment Act Credit

The Federal Financial Institutions Examination Council (FFIEC) has stated that IDA involvement will be considered in evaluating a bank's CRA performance, depending upon the services and products provided and the extent of such activities. In the FFIEC's language, "examiners evaluate the

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The Evolution of an Urban Market Retail Strategy

—by Gail Snowden, *Executive Vice President and Managing Director, Community Banking Group/CRA, FleetBoston Financial, Boston, Massachusetts*

In looking back over the past decade of developing what is now the Community Banking Group at Fleet, I remember what a difficult time it was in 1990 for residents and businesses in the inner city. In Boston, for example, the city was challenged with violent crime on a daily basis, corporate downsizing created some of the highest unemployment rates in the U.S., and banks in particular were feeling the impact of a devastated real estate market. Certainly during the years prior to 1990, inner-city communities lacked the most basic of retail services, including a local retail bank presence. However, in 1990 the Boston area was part of the steepest economic downturn since the Great Depression in New England and this only served to intensify the unavailability of financial services available to certain urban markets. For example, two inner-city neighborhoods which represented the heart of the Boston African-American community, Roxbury and Mattapan, housed 17% of the city's population but those residents were served by only 4% of the city's banks.[1] A Federal Reserve study found that, at the time, predominantly white neighborhoods had nearly four times as many depository institution offices per capita as predominantly black neighborhoods in Boston.[2]

Despite crippling problems in our real estate portfolio, the former BankBoston's[3] senior management made a commitment to treat inner-city markets as a business opportunity, rather than a compliance obligation. It was this commitment to make significant and measurable changes in our urban markets that helped create a separate, profitable and nationally recognized community banking model within the corporation. The first, visible outcome of this "niche" strategy was the creation of First Community Bank (FCB), an urban "bank within a bank," which offered a specialized banking approach that catered to the unique, diverse cultures in our urban markets. Since 1990, FCB has grown from its original seven branches in underserved Boston neighborhoods to its current 45-branch network in three states, with more than $1.9 billion in deposits. The expansion and profitability of FCB is indicative of the viability of engaging in business in urban markets that benefits both the local community and the bank.

> *". . . .senior management made a commitment to treat inner-city markets as a business opportunity, rather than a compliance obligation."*
>
> Gail Snowden, *Fleet Boston Financial*

What approaches have proven most successful in delivering retail services to urban customers? When we first started, we developed a new product set for these communities that was user-friendly, such as the First Step products, $500 entry-level loans, programs for first-time homebuyers and a shortened credit application. Today, we are concentrating on strategies to close the gap in the delivery of these products and services. For example, it was through our retail branch presence that we discovered the limited access to capital experienced by inner-city individuals and businesses. As a result, we added a development company to provide the necessary credit and equity access to LMI-area- and minority-owned businesses and a commercial real estate component to meet the needs of smaller developers.

The attitude and commitment of its employees enhance the strength and success of FCB's products and services. It was clear to me early on that we needed to build a diverse management team that understands the unique needs of the urban markets, respects the languages and customs, and is creative in its approach to conducting business with individuals having no bank or credit history. We

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1 C. Finn, *"Mortgage Lending in Boston Neighborhoods, 1981-1987: A Study of Bank Credit and Boston's Housing.'* Boston Redevelopment Agency, December, 1989

2 K. Bradbury, K. Case, C. Dunham, *"Geographic Patterns of Mortgage Lending in Boston, 1982-1987,"* New England Economic Review, Sept. / Oct. 1989.

3 BankBoston has since merged with Fleet Financial Group (effective 10/1/99) to form FleetBoston Financial Corporation.

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try to ensure that our advertising and promotional materials are reaching out to the community in meaningful and appropriate ways. For example, we have found that the best way to get the word out about a mortgage or investment product isn't necessarily by providing literature at the branch but by, perhaps, sending an FCB representative to address a church group or community organization. Among other things, we approached local civic leaders to serve on our advisory board and encouraged our employees to reciprocate with representation on non-profit, CDC and retail association boards. Employees that actually live in the neighborhoods in which they work can offer greater responsiveness to our customers. We have Community Development Officers who deliver financial literacy seminars in different languages, covering areas such as credit restoration, basic banking, and first-time homeownership. Finally, we ensure that branch staff take every opportunity to cross-sell the bank's services, by selling not only deposit products, but credit and investment products, as well. Conversely, I ask my small business lenders to ask for deposits or a company's payroll when they make a loan.

Another key aspect of our urban retail strategy is in forming strong partnerships with both public and private organizations to get the job done — whether that job is restoring retail bank presence in an inner-city community or developing small business growth in the community. Our partnership with the Small Business Association (SBA), for example, helped create the FastTrack loan program, which provides an accelerated loan approval process. A new SBA program, SBA Community Express, provides technical assistance to start-up businesses after the loan is made. Finding innovative approaches to loan guaranties not only spreads the risk of certain loans, but increases the chance of success for small businesses.

As we enter our second decade of strategically serving inner-city customers, we are faced with a new set of challenges. The last 10 years have seen an increase in retail competition in inner city markets, a more stringent regulatory test for lending and service, and unique challenges and opportunities posed by an ever-changing technology. Knowledge of financial services requires increased sophistication and access to Internet technology. Our Community Banking Group unit is responsible for creating an Internet strategy for our low-income, urban and rural customer segments. We intend to leverage the bank's existing Internet strategy and create an approach to meet the unique needs of this market segment.

Under the FleetBoston Financial banner, our goal is to continually build layers onto our urban banking services to ensure that all of our customers and potential customers receive the products and services they require for financial health. The satisfaction comes in knowing that by helping to break the myth that inner-city markets are unprofitable, we are having a significant impact in the revitalization of these communities.

For additional information contact Gail Snowden, Executive Vice President and Managing Director, Community Banking Group / CRA, FleetBoston Financial on (617) 434-8105 or on the Internet at <GAIL_SNOWDEN@fleet.com>.

FleetBoston Financial's First Community Bank (FCB), a specialized urban "bank within a bank," has grown from seven branches in underserved Boston neighborhoods to 45 branches in Massachusetts, Rhode Island and Connecticut. The photo (above) is of the Upham's Corner branch within the city of Boston which was one of the original seven FCB branches.

Banco Popular and Popular Cash Express: Providing Financial Services to the Unbanked

—by Jose Riera, *Banco Popular*

Unbanked-focused Approach

Since its inception in 1893, Banco Popular's history has been linked closely with the economic and social welfare of the communities it serves. This sense of social responsibility continues to guide the bank toward offering financial services to those who need them most, even as it has evolved from its origins in Puerto Rico to become the largest Hispanic financial institution in North America. Its parent company, Popular Inc., has over $25 billion in assets and continues to expand its presence in the United States, the Caribbean, and Latin America.

In an effort to establish itself as the principal financial services provider to Hispanics in the United States, Banco Popular made the strategic decision to establish Popular Cash Express in early 1998. There were important reasons why Banco Popular chose to pursue this novel approach. According to Roberto R. Herencia, executive vice president of Popular Inc., and director of Banco Popular's U.S. expansion efforts, "After assessing the demographic and economic profile of our target customer base, we determined that in order to become the preferred financial institution for the Hispanic market we had to pursue some alternative approaches. When one considers that over half of

the 32 million Hispanics residing in the U.S. are currently unbanked and that the median household income of this segment is $35,000, it became clear to us that our traditional retail banking strategy

would need to be adjusted to reflect this reality."

Hence the creation of Popular Cash Express. According to Gary I. Gagerman, chief executive officer of Popular Cash Express, "It is important that we meet our customers' current financial needs and habits - as they are now - with the services and physical facilities to which they are accustomed. Our locations are clean, spacious, and well lighted, and we often receive compliments from our cus-

> *"All these efforts come together to send out an important message to this community — that we value their business and that we will do whatever is necessary to cater to their needs."*
>
> Gary Gagernan, *Popular Cash Express*

tomers on the appearance of our stores. Since a large majority of our customer base is Spanish-dominant, we also man our stores with friendly bilingual staff. All these efforts come together to send out an important message to this community - that we value their business and that we will do what is necessary to cater to their needs." Customers who visit Popular Cash Express' locations are able to obtain a wide variety of retail financial services such as check cashing, wire transfers, utility payments, and money orders. More

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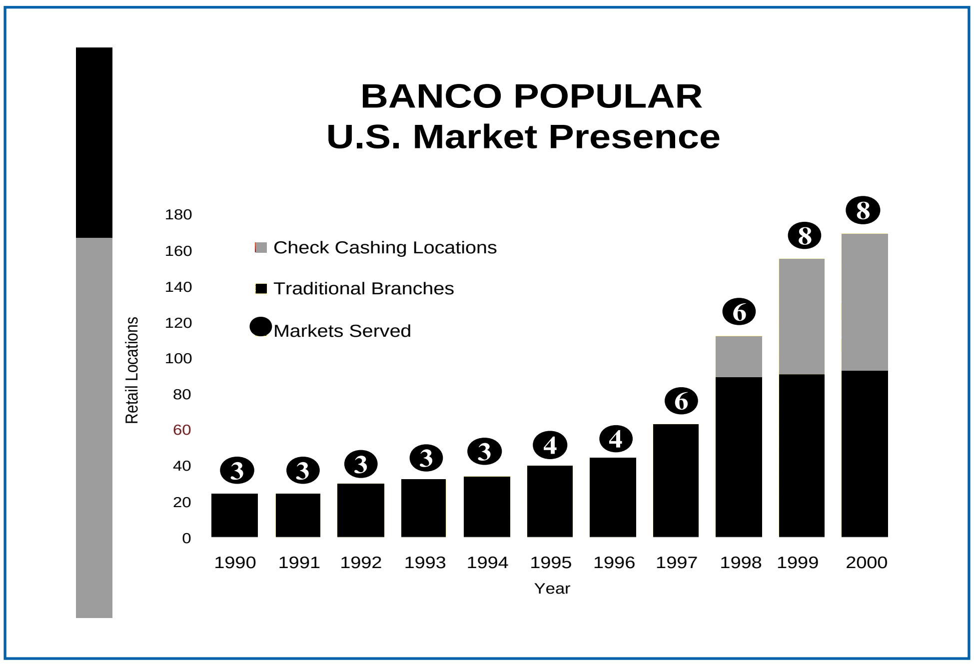
recently, PCE has expanded on this format by offering additional services that have not generally been offered at traditional check-cashing locations such as insurance, travel services, and other value-added products. Banco Popular has also been working on developing a suite of credit products, including credit cards and personal loans, that has been specifically designed with this clientele in mind.

PCE currently operates over 75 retail financial service centers in New York, California, Texas, Arizona, Florida, and Washington, DC. When added to Banco Popular's traditional branching operations, which also operate in the states of New Jersey and Illinois, Banco Popular offers its clientele over 170 stateside locations where they can conduct a full spectrum of financial transactions. It is important to note that these geographic areas are home to over 80 percent of all U.S. Hispanics.

Other Unbanked Initiatives

Popular Cash Express' efforts go hand in hand with other important Banco Popular initiatives catering to the unbanked market. Banco Popular recently participated in the production and distribution of "El Sueño Americano," an educational video geared towards educating Hispanics on the importance of establishing and building a good credit history. The bank has also sponsored live segments on the weekly television show "Sábado Gigante," where it actively promotes homeownership as a way of attaining financial security and an improved quality of life. In addition, Banco Popular has been at the forefront of introducing Direct Deposit and other electronic-based initiatives to the unbanked market. Banco Popular was the first institution in Puerto Rico and among the first in the United States to participate in a new program sponsored by the U.S. Treasury Department that offers an electronic transfer account (ETA) to federal benefits recipients. "Acceso ETA" is a low-cost account that allows customers to receive their benefits via direct deposit, advancing Banco Popular's corporate goal of transforming paper-based transactions to electronic media. This account offers full access to all traditional distribution channels as well as access to over 22,000 ATMs and point-of-sale terminals in Puerto Rico. Banco Popular also actively collaborates with the Treasury Department's U.S. Savings Bond efforts and Richard L. Carrión, Banco Popular's president and CEO, was recently chosen to preside over the 2000 Savings Bond Campaign in Puerto Rico and in the Hispanic markets in the United States.



The Road Ahead

Banco Popular is currently working on developing a closer links between its traditional bank branches and its check-cashing locations. According to Jorge A. Junquera, president of Banco Popular North America, "Our objective is to differentiate ourselves from other U.S. financial institutions by focusing on low to middle-income Hispanic groups. To accomplish this, we will aim to concentrate our efforts on opening check-cashing offices and follow these closely with traditional bank branches when local market conditions warrant it. This means that whenever any one of these customers is ready and

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Service, Anyone?

—by Tena Hines, *OCC, Community and Consumer Policy Division*

The Community Reinvestment Act (CRA) large bank evaluation is a three-pronged test that evaluates the loans and investments made and the services provided within a bank's assessment area. The lending test has received a lot of attention, in part because of its importance to the overall rating, but also because an overwhelming majority of institutions subject to the CRA are primarily involved in making loans. Similarly, the investment test has also had a fair amount of press primarily because of the "new" community development definition and the somewhat subjective issue of the existence or lack of opportunities and needs within communities. In fact, the Spring 2000 issue of this newsletter discussed multifamily rental housing and its consideration under the CRA. Though all three tests were mentioned, only the lending and investment tests were discussed at length. And so it is, the final piece of this trilogy - the oft-overshadowed service test - is seldom a high priority item for many banks in determining how they might best serve their communities and in turn, serve themselves.

The service test can be a critically important piece of the puzzle for an institution hoping to achieve an outstanding rating. While strong performance under the service test cannot help a bank that is not lending avoid a less than satisfactory rating, it can help good or excellent lenders reach the august ranks of institutions that embody both the spirit and the letter of the CRA by earning an outstanding rating. There are effectively two ways to achieve an outstanding rating. First, a bank with good lending that has excellent performance under the service and Investment tests would be rated outstanding. In addition, a bank with excellent lending could achieve an overall outstanding rating with good performance on the service and investment tests.

Retail Banking Services

In the service test, both retail banking and community development services are considered. The performance criteria for retail banking services are (1) the current distribution of branches by geography; (2) the record of opening and closing branches; (3) the availability and effectiveness of alternative retail banking delivery systems; and (4) the range of services provided and the degree to which they are tailored. In the evaluation, the principal focus for retail banking services is the current branch distribution. As such, banks are neither required to expand their branch networks nor to operate unprofitable branches. For banks unwilling to make the substantial investment in brick and mortar and yet desirous of extending their reach in underserved areas and thus enhancing their branch distribution, mobile branches are one option. Staffed mobile offices that are licensed as branches could positively affect both the distribution of a bank's branches as well as the history of opening and closing branches. Mobile branches would also likely affect the range of services provided and the degree of tailoring when these offices provide access to communities with previously limited access.

While the primary emphasis of the service test is on full service branches, alternative delivery programs - such as ATMs, bank-by-phone, mail, Internet, etc. - are considered, but only to the extent that they are effective means of providing needed

> *"The service test can be a critically important piece of the puzzle for an institution hoping to achieve an outstanding rating."*

services to low- and moderate-income individuals and areas. The range of services as well as the degree of tailoring of services (focused rather than identical) to meet the needs of various income geographic areas is also a factor in the evaluation. The Chicago CRA Coalition/Bank One Alternative Banking Program discussed on p. 5 provides an example of tailoring services using existing products to serve an identified need in lower income communities. Examples of increasing the range of entry-level retail products that can ultimately help low- and moderate-income customers achieve their financial goals are found in the article on the

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Individual Development Accounts (see p. 8). In addition, the development of electronic payroll for business customers, as discussed in "Direct Deposit: Technology to Reach the Underserved" on p. 2, could become a useful tool in CRA and help meet the needs of the unbanked when the employees served by electronic salary access are primarily low or moderate income.

Community Development Services

Community development services are evaluated on how innovative and responsive they are when they are provided. Because the provision of CD services can only help to raise the service test rating, examiners will not lower a rating because a bank fails to provide CD services. As with loans and investments, CD services provided by affiliates are considered so long as they have not been considered elsewhere, and the same broader statewide or regional area provision for considering activities also applies.

The provision of CD services should be focused and for high marks in terms of responsiveness it should be in harmony with, and reflective of, identified assessment area credit needs. In some cases, this focus will complement the bank's business strategy and will serve to make CRA compliance an even more integral part of the bank's success. Conversely, it could be that a CD service focus consistent with identified needs assists a bank with a different business strategy to help meet those needs by providing its financial expertise. "Building Credit in Underserved Communities" on p. 7 provides an excellent example of an integrated approach to addressing assessment area needs which afforded the bank positive consideration under both the service and lending tests while ameliorating a community concern.

Banks may receive community development service credit for assisting organizations where it has also made a qualified investment or a community development loan. Instances such as these generally demonstrate a more thoughtful and holistic approach to helping meet community credit needs, an example of which is exhibited by FleetBoston in the formation of its urban market retail strategy as discussed on page 9. A few examples of the variety of CD services from more recent performance evaluations include

- Assisting adult clients with mental disabilities in obtaining mortgage loans;
- Conducting fundraising for an organization that assist homeless families;
- Donating trust department services to administer a trust for a low-income individual for the purposes of education; and
- Employing Spanish interpreters during the farming season to assist low-income migratory farm workers in conducting banking business.

Conclusion

Though the service test is often not a critical focus for banks in CRA, its impact can ultimately be huge. The decisions a bank makes about branch locations, product offerings, business hours, and the provision of financial expertise to community organizations can have a much further reaching and longer-term impact than just a boost to the rating. Activities considered under the service test are the type that build foundational support for strong relationships that can ultimately translate to greater lending and investing as well as healthier, happier communities for us all.

For additional information contact Tena Y. Hines, compliance specialist, Community and Consumer Policy Division, on (202) 874-4431 or on the Internet at <tena.hines@occ.treas.gov>.

Financial Literacy: Tools for Survival

Sam Frumkin, Maury Zeitler, Annette Lepique, *Office of the Comptroller of the Currency*

Financial literacy is a life skill which provides benefits to individuals and their families from early childhood through retirement. The adage, "a penny saved is a penny earned," rings true. As such, money management skills, including balancing a checkbook and an understanding of credit, should be given greater attention in the educational process. The OCC encourages all national banks to see how they can provide assistance in this vital area.

Financial literacy is a learning process through which individuals become smart consumers, building on a basic understanding of banking, savings, and the importance of good credit. For example, such knowledge enables a consumer to open a bank account, deposit a paycheck, and over time, start a savings account and set long-term goals. Equipped with this basic understanding, a consumer can save enough money to purchase a home or start a small business. Armed with these fundamentals, a homeowner can avoid an unscrupulous contractor or predatory lender.

Banking of the Future, a program of Operation HOPE, Inc., teaches youth aged 10-20 the fundamentals of banking, checking and savings, credit, and investment.

According to the latest Survey of Consumer Finances, approximately 10 percent of the U.S. adult population, or 10 million families, have no formal relationship with a financial institution. This means these consumers do not use basic transaction accounts (savings or checking accounts) and cannot conduct business utilizing the services of these institutions. Low-income persons have a disproportionately high representation in this population.

Why is Financial Literacy a Problem?

Financial literacy is at the core of healthy communities. A basic understanding of money, and how it functions in today's society, is crucial to a family's ability to develop assets. The development of assets, large or small, is the first step in the process of introducing a family into the financial mainstream, increasing family stability, encouraging better consumer habits, and eventually increasing a family's stake in the health and wealth of a community.

By building assets, low-income families have been able to move out of poverty and into the mainstream of the U.S. economy. However, the U.S. historically has a poor track record when it comes to personal savings, and lower-income families have an even lower savings rate than the general population. Large medical bills and credit card debts can make it impossible for the lower-income consumer to "put a little away" in savings for future emergencies or purchases.

In addition, lower-income consumers sometimes have difficulty in obtaining credit from traditional financial institutions due to poor credit histories. However, access to credit for lower-income families is rapidly increasing through subprime lending programs. Unfortunately, unscrupulous lenders can easily take advantage of uninformed consumers through deceptive practices. Predatory lending practices, such as equity stripping, multiple refinancings, or charging higher fees, have a greater impact on uniformed borrowers than those who are financially informed.

> *"A basic understanding of money, and how it functions in today's society, is crucial to a family's ability to develop assets."*

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FINANCIAL LITERACY
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What Can Be Done?

A study released by the National Endowment for Financial Education has shown that personal finance education improves students' saving and spending habits and money management skills. While parents may like the idea when they hear about it, they rarely think about personal finance education for their children otherwise. Therefore, banks, not-for-profit organizations, and schools should take the lead in jointly developing and instituting appropriate programs.

Since people, especially those of different ages, learn in different ways, educational programs that are tailored to the needs and interests of specific groups will help ensure that messages about financial services education reach the desired audience.

Elementary school programs can include bank-sponsored school savings programs, on-site educational programs, and special bank products developed to encourage children to open bank accounts.

Middle and high school programs can include savings programs, shadowing and mentoring opportunities, personal finance classes, and opportunities for on-site banking. High school curriculums can include life skills (like balancing a checkbook) and school-to-career programs that emphasize careers in the financial services industry, field trips, guest speakers, investment clubs, IDA programs, stock market games.

There is no single curriculum for personal finance; schools use a variety of approaches suited to elementary and secondary schools. Many use courses prepared by outside sources including the High School Financial Planning Program by the National Endowment for Financial Education or the Personal Finance Series by the National Council for Economic Education.

Adult programs are often transaction specific, in conjunction with a homeownership, credit repair, or entrepreneurship program. Many of these programs include information on saving for retirement and children's educational expenses. They can also be included in programs that provide English language training and other skills designed to help immigrants adjust to life in the United States. A range of organizations, including banks, community organizations, and religious institutions, sponsor adult programs. Financial literacy training can also be incorporated into IDA programs for homeownership, small business development, or education.

Recommendations

In today's complex financial marketplace, financial literacy is an important skill, especially for lower-income families where one uninformed financial decision could mean economic disaster for a family. Banks, working with schools and community organizations, can help develop financial literacy programs, allow their employees to donate time to serve as educators and trainers, and participate in programs aimed at uninformed consumers. They can also make contributions to financial literacy intermediaries and provide space for classes.

Finally, as many banks already have done, all financial institutions should also assume responsibility for honest and clear advertising of prices, terms, and conditions. Such clarity itself contributes to financial learning.

Community Developments—The community affairs newsletter from the Office of the Comptroller of the Currency

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Previous editions available on our website @
<www.occ.treas.gov>

ATMs at Post Offices

The U.S. Treasury Department has partnered with the U.S. Postal Service in a one-year pilot program to provide ATMs at three urban locations in Baltimore, Maryland, and three rural locations outside Tallahassee, Florida. The program goal is to provide safe and convenient access to banking services in traditionally underserved areas. Officials will study the potential for distributing Social Security payments, federal retirement payments, and other benefits via ATM before deciding whether to expand the program nationwide.

Consumers may use ATM, debit, or credit cards issued by most financial institutions in these areas. There are no fees charged to use the ATMs. Key Bank, N.A., of Cleveland, Ohio, owns, operates, and maintains the ATMs.

Making a transaction using the Post Office's new ATM.

COMMUNITY BANK PARTNERSHIPS

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increase trust and 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 criteria, the bank established some modest restrictions on the ABP. However, after one year, account holders can apply to upgrade their accounts to traditional account products.

The first Bank One branch to offer ABP is located in the low-income minority community of Englewood / Chicago Lawn. ABP is now available 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. Over the past 16 months, almost 1,000 checking accounts have been established, along with over 500 savings accounts. Over 80 percent of opened accounts have been maintained. All of the account holders would have been ineligible for traditional Bank One accounts - mostly due to lack of credit. The average account balances are relatively high - almost $600 for checking accounts and over $1300 for savings accounts. In addition, the bank has cross-sold other products to ABP customers.

The Coalition and Bank One consider the ABP pilot to be an opportunity to learn more about banking in underserved markets. Program evaluation criteria were identified during the planning phase. Bank staff and Financial 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 periodically contact account holders by phone to invite them to financial literacy workshops and to answer questions. Bank One is also in the process of 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.

Mary A. Laraia, senior vice president at Bank One, says about the Alternative Banking Program: "Access to financial services has become much more important to a family's well-being over the last decade. It is amazing how much time and money a family can save when they learn how to use banks to their benefit. And every dollar or hour saved means much more to a low-income family, or one in distressed circumstances. This project addresses this issue head-on, and attempts to discover how to create that link between banks and families that have never used or trusted banks before."

Banking Technology: Electronic Transfer Accounts

—Cathy Donchatz, *U.S. Department of the Treasury*

One recently introduced use of direct deposit technology is the Electronic Transfer Account (ETA). An expanding list of financial institutions nationwide is now offering the ETA, which is specifically designed for federal payment recipients who do not have a bank account. With an ETA, anyone who receives a federal benefit, wage, salary, or retirement payment can take advantage of an opportunity to open an account regardless of past credit history.

The ETA is a low-cost alternative to receiving paper checks. It is now available at more than 580 federally insured banks, savings and loans, and credit unions with over 6,100 locations in 49 states, the District of Columbia and three U.S. territories.

"This is good news for Federal payment recipients across the country who want to take advantage of the many benefits of using electronic funds transfer, or Direct Deposit, but who don't have an account with a financial institution," says Donald Hammond, fiscal assistant secretary of the U.S. Treasury Department. "The ETA directly addresses those economic concerns voiced from cash consumers and community-based organizations that many people on fixed incomes are unable to pay the high cost of an account."

The ETA offers a safe, secure, and convenient way for federal payment recipients to have access to their funds automatically through electronic funds transfer. The account costs $3 or less per month, and allows at least four free cash withdrawals and four balance inquiries per month from a teller, ATM, or both. The ETA also provides a monthly statement and imposes no minimum balance, except as required by law. Cash consumers can choose to continue receiving their checks by mail if receiving their payment electronically is a problem. The ETA is voluntary for financial institutions to offer and for federal recipients to enroll. Financial institutions receive a one-time set-up fee from the Treasury Department of $12.60 per account.

The ETA is available to recipients of Social Security, Supplemental Security Income, veterans benefits, federal employee salary and retirement, and military and Railroad Retirement payments. Further information about the names and locations of financial institutions offering the ETA is available by calling 1-888-382-3311 or visiting the ETA Web site at www.eta-find.gov.

LINKING LOW-INCOME FAMILIES

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actual services and products provided by an institution in connection with IDA programs as one or more of the following: community development services, retail banking services, qualified investments, home mortgage loans, small business loans, consumer loans, or community development loans." Specifically, financial institutions can:

- Provide matching funds for IDAs or operating support for community organizations that coordinate IDA initiatives;
- Offer and open IDAs for low-income families;
- Assist in the design and implementation of IDA initiatives, including developing and teaching financial literacy courses;
- Enhance accounts by offering benefits such as higher interest rates, ATM services, or waived minimum balance requirements;
- Make loans to account holders once savings goals are achieved.

In summary, IDAs can be a win-win situation for the bank by attracting new customers while at the same time building wealth in underserved communities.

Learn More

For more information about IDAs and how your financial institution might become involved, contact Sandi Smith at the Corporation for Enterprise Development (sandi@cfed.org), on 202-408-9788 or visit CFED's website at www.cfed.org or the IDA network at www.idanetwork.org .

BUILDING CREDIT

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several new developments have been anchored and expanded by the infusion of investment from the immigrant community. In addition, Arvest Bank experienced tremendous customer growth among immigrant workers, especially since less than 8 percent of the workers had any previous relationship with the bank. In a customer segment where utilization of any bank services is estimated at 40 percent or less, within two years of the launch of this program over 60 percent of workers at participating plants had a relationship with the bank. Moreover, 7.4 percent of workers purchased houses with mortgage loans from Arvest Bank, and 26.9 percent had consumer loans with the bank. As of April 30, 1999, approximately 52 percent of the immigrants in Rogers were customers of Arvest Bank, representing a total of $26.5 million in business, including $5 million in deposit accounts, $1.2 million in consumer loans, $20 million in mortgage loans and $341,000 in commercial loans. Beyond these results, Arvest Bank has made a significant contribution to the quality of life of immigrants and in September 1999 the American Bankers Association awarded the bank its Community Projects Action Award for outstanding service to the bank's trade area.

The Arvest Bank Group owns and operates 15 community banks in Arkansas, Oklahoma, and Southern Missouri. For additional information, contact David J. Bugea, Arvast Bank, at (501) 621-1748 or <dbugea@arvest.com>.

BANCO POPULAR

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decides to pursue more traditional banking services, we'll be ready to meet their future needs. In the meantime, we'll work hard to introduce them to more mainstream products and services."

Banco Popular is also taking on the challenge of meeting the credit needs of this clientele, as a large number of unbanked customers fall outside of traditional lending criteria. This reality is further strengthened by research results that indicate that only 7 percent of its existing check-cashing customer base has ever taken out a personal loan. Banco Popular has begun discussions with consumer organizations and policy makers so that all may collaborate to improve access to credit for the millions of underbanked and unbanked families.

For additional information contact Jose Riera, Banco Popular, at (773) 205-8300.

Comptroller of the Currency
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