

**U.S. Department of the Treasury
Office of Financial Education**

Community Financial Access Pilot: Elements of an Effective “Banking the Unbanked” Strategy

Bank and credit union accounts serve three basic functions: a means of receiving income and converting it to cash; a way to make payments; and a mechanism for storing savings.¹ Nearly 10 million households in the United States do not have accounts. This number of “unbanked” households includes 22 percent of families with an annual income of less than \$25,000 and nearly half of all families moving from welfare to work.² Without accounts, low- and moderate income families and individuals can pay high fees to check cashers and other alternative financial providers.

A recent study has found that nearly \$1.5 billion in fees per year are paid to check-cashing providers by these families for their basic financial transactions.³ These alternative financial service providers charge an estimated \$40 per to cash a payroll check. Using alternative financial service providers, these families and individuals may pay as much as \$40,000 during their working tenure. If instead of paying these additional costs, these families and individuals participated in wealth building activities, they could build significant savings cushions for emergencies or larger needs, and have opportunities to access long term assets such as higher education, or home or business ownership. The ability to accumulate and preserve wealth is dependant on the types of accounts, financial education, money management skills, and access to other asset building opportunities.

This document provides a brief summary of findings about some of the effective elements of programs that have been implemented to provide low- and moderate-income individuals access to accounts at financial institutions. Effective approaches to reach unbanked people should include the following elements: 1) appropriate financial products, 2) financial education, 3) outreach and support, and 4) incentives. The examples offered in this document are from Treasury’s First Accounts Program. For more detailed information, visit www.treas.gov/financialeducation and visit the Community Financial Access Pilot link.

FINANCIAL PRODUCTS

To attract customers, it is important for financial institutions to offer services and products that are responsive to the needs of unbanked consumers, including low costs, liquidity, convenience, and easy-to-understand structures.

- Accounts should include the following features:
 - low or no fees to start or maintain the account,
 - low- or no-opening balance (under \$100) and low- or no-minimum balance requirements, and
 - simple and transparent fee structures that are explained up front.

¹ Lise McKean, Sarah Lessem, and Elizabeth Bax, *Money Management By Low Income Households: Earning, Spending, Saving, and Accessing Financial Services*, Center for Impact Research, August 2005.

² Matt Fellowes and Mia Mabanta, *Banking on Wealth: America’s New Retail Banking Infrastructure and Its Wealth-Building Potential; A Research Brief for the Metropolitan Policy Program at Brookings*. Brookings Institution, January 2008.

³ Fellowes and Mabanta.

- Basic savings accounts promote savings and can easily be developed. Easy access to these accounts may promote savings for emergencies as well as savings for long-term needs.
- Checking or transaction accounts help individuals meet regular financial needs. These accounts should also be low cost and include features to help individuals manage them. For example:
 - Use of a debit card or check-less checking may especially appeal to young people who are not in the habit of writing checks. Limit the card usage so that overdrafts cannot occur.
 - Minimize overdraft fees, consider waiver of some overdraft fees, linking checking and savings accounts, and providing counseling before or at the first overdraft.
- Provide “second chance” accounts to individuals listed in ChexSystems whose debts have been paid.
- Deposited funds should be made available as quickly as possible to assist in managing liquidity.
- Accounts that accept direct deposit from employers and government payments encourage regular savings.
- Accounts that add services over time may encourage good account management by customers.
- Provide at a low cost other transaction products that may meet needs of the market and that may be provided by alternative financial services providers, including: money transfers (domestic and foreign), money orders, bill payment, stamps, and transit fare cards.
- Consider additional branch and ATM locations convenient to the unbanked population. Alternatively, consider providing debit cards and ATM cards that can be used anywhere for no or reduced cost.
- Consider credit products that meet the needs of the low-income market, such as low-balance consumer loans, secured credit cards and used car loans or refinancing.

Example: Latino Community Credit Union (LCCU), North Carolina

- LCCU offers no-fee checking accounts without requiring a minimum balance and members can write up to 50 checks per month for free. If a customer writes a check over the balance available in the checking account, then LCCU transfers funds from a savings account (or whichever account the member designates) to protect the member against overdraft fees.
- LCCU established the lowest fees in North Carolina for wire transfers and charged between \$6.50 and \$10.00 per wire transaction, depending on the country and the amount. LCCU did not charge an exchange rate fee, unlike other wire transfer providers.
- LCCU offers no-fee interest bearing savings accounts as long as customers maintain a minimum balance.
- LCCU also offers three other types of savings accounts: 1) Youth Account; 2) Holiday Account; and 3) Children’s Account.
 - *Youth Account* provides youth members with free credit consultation, an ATM card, and a member photo ID card.
 - *Holiday Account* is designed to help members save money for Christmas and other holiday expenses. The member can open a Christmas/Holiday account at any time with a deposit, and can continue making deposits until the end of October. Withdrawals are not permitted from this account. All funds in the Christmas/Holiday account will be automatically transferred to an account chosen by the member on the last business day of October.
 - *Children’s Account* is a special savings account for children ages 12 and under. The account offers a competitive interest rate comes with a register for the youth to learn how to keep track of deposits and withdrawals and an ATM card upon request.
- LCCU offers a Credit Builder Loan to allow customers to borrow against money held in their savings. The funds in the savings are frozen during the term of the loan and the interest charged was slightly higher than the interest rate earned by the savings account. This allowed the customer to establish credit.

FINANCIAL EDUCATION

By helping customers to learn how to manage their money and use accounts optimally, financial education is important to bringing unbanked people into the financial mainstream and helping them successfully stay in a wealth-building track. Organizations should provide financial education that meets the needs of different types of unbanked people.

- A sound financial education program should follow the Eight Elements of a Successful Financial Education Program. Each element is identified as it relates to the program's content, delivery, impact or sustainability, and can be found at: http://www.treas.gov/offices/domestic-finance/financial-institution/fin-education/successful_program.shtml.
- For people who have previously had bank accounts, but had difficulty managing them, provide education on how to manage the account and avoid overdrafts.
- For new immigrants and those that have never participated in the financial system, provide education on how the financial system works and the various financial products and services offered.
- Financial education is most successful when provided in a manner convenient for participants and/or part of other services.
- Research has found that between 7 and 12 hours of financial education is optimal for many unbanked individuals.⁴
- Financial education should be tailored to address not just the language, but also the cultural and economic context of the individuals being trained.
- Many individuals will benefit from one-on-one counseling instead of or in addition to group education.
- Education should meet the learning styles of adult learners, and be "hands on" and interactive.
- Many financial education curricula and media exist from government, non-profit and for-profit providers. These include curricula in languages other than English and those that are designed to suit adult populations. For more information visit www.mymoney.gov and <http://www.treas.gov/offices/domestic-finance/financial-institution/fin-education/resources/>.

Example: Center for Economic Progress, Illinois

- The Center for Economic Progress (CEP) provides innovative programs to increase the financial stability of low-income people in Illinois and across the United States. One of its key strategies is providing free tax preparation assistance for working families and individuals across Illinois.
- CEP holds free personal financial management education sessions. The program aims at assisting clients to develop, practice and maintain healthy spending, saving and credit habits. CEP also provides one-on-one credit counseling.
- CEP offers financial literacy workshops outside of the tax preparation season through its various community partners at sites such as churches, libraries, social service organizations, banks, and credit unions. The diverse locations help increase attendance.
- CEP partners with financial institutions such to facilitate clients' ability to open accounts. Accounts are opened at the tax assistance sites, or people completing the training can obtain a certificate of completion. Once they have the certificate, they can go to any of the financial institution branches and open an account.

⁴ Schreiner, M., Sherraden, M., Clancy, M., Johnson, L., Curley, J., Grinstein-Weiss, M., et al. *Savings and Asset Accumulation in Individual Development Accounts*. Washington University, Center for Social Development. 2001.

- CEP found that the participants most likely to finish the financial education program and make lifestyle changes were employed parents wanting to educate their children and who had attended a workshop and then set up a direct deposit account.
- CEP scaled its financial education from 8 hours to 1.5 hours to ensure successful recruitment and retention of participants. Many of its clients wanting to open an account were often at the most basic level of familiarity with banking and financial management.

OUTREACH AND SUPPORT

Effective outreach and support of strategies to reach the unbanked are critical for long-term success. People who are unbanked may not be easily reached through traditional marketing approaches; they may even mistrust mainstream messages and media. To successfully engage the low- and moderate-income unbanked families and individuals organizations must apply outreach efforts that are more likely to reach young adults, minorities, less-educated individuals, and renters. Outreach must be tailored to these specific groups because they tend to profile those who are unbanked and outreach and support must be tailored to this group, their needs, and in less-mainstream approaches.

- Outreach through trusted sources, such as community service organizations, faith based organizations, ethnic organizations and similar partners.
- Word of mouth from other participants is the most effective marketing strategy.
- Deliver services and outreach at a time and place when people may be thinking about their financial needs: either voluntarily (looking for a mortgage or car loan), or required (tax filing).
- As much as possible, be in the community, for example, locating in and hiring staff from among community residents.
- Partners should be committed to reaching and serving unbanked people at all organizational levels – from the senior decision makers, to middle management, to front line staff, and all of those levels should be trained to understand the financial needs of the population.
- Track and measure results and make modifications as needed based on findings.
- Partners should not expect immediate benefits. Patience, flexibility and creativity are required from all partners.

Example: DeKalb County Cooperative Extension Service, Georgia

- DeKalb's initiative around banking the unbanked grew out of the out of the DeKalb Collaborative. This existing coalition included organizations already providing services for low-and moderate-income workers in the areas of education, banking, workforce development, financial literacy, affordable housing, asset development, and tax preparation.
- DeKalb's cooperative consisted of a group of public, private, and non-profit organizations that promote financial literacy and build relationships between low- and moderate-income consumers and banks in DeKalb County as an integral part of the workforce development programs they offer.
- DeKalb's goals were well aligned with other community goals. The Workforce Development Department had the goal of helping people find jobs; the Collaborative wanted to help people use their earnings more effectively to build wealth. To manage the larger group formed by linking these two efforts, the partner organizations held monthly meetings to address any issues that might arise and keep abreast of what the other members were doing.
- Most of the Collaborative member organizations, routinely provided services to low- and moderate-income individuals, and their role was to refer unbanked clients for financial education.
- DeKalb's Workforce Development Department required all of its clients to take the financial literacy course.

- DeKalb’s financial partners offered the banking services that participants could use and referrals from potential customers who had ChexSystem issues. One bank designed the accounts that became the model for the accounts offered by the other bank partners.
- Bank regulators supported the initiative by providing guidance to the financial institutions.
- DeKalb’s financial education classes were offered, principally by Cooperative Extension at a variety of locations, including the Extension Service offices, a local college, community organizations, and a local housing development.

INCENTIVES

Like all consumers, unbanked individuals respond to various incentives for opening accounts and participating in financial education. Combining low-cost checking or savings accounts with other financial services such as tax assistance, individual development accounts, check-cashing, or money orders, attracts new accounts. These services enable financial institutions to tie account opening with specific short-term financial needs that families and individuals face, such as obtaining a tax refund or arranging for a money order or cash transfer. Additionally, opening an account can be tied to longer-term aspirations, such as home or car purchase, starting a business, or providing for higher education. Such incentives include:

- Direct monetary incentives, such as match to savings, including Individual Development Accounts or a youth matched savings account..
- Access to lower cost loans, such as reduced rate on a car loan or consumer loan if the account is open for a certain period of time.
- Deferred or intangible incentives, such promoting the account as a way to save for a child’s education, small business start up, or home purchase.
- The incentive may be provided by the financial institution, a community organization, or local government entity.

Example: Juma Ventures, California

- Juma’s Futurefundz, offers a youth-centered individual development account (IDA), matching youth savings three-to-one for educational purposes and two-to-one for a down payment on an apartment or home, starting a business, buying a computer, or paying for childcare.
- Juma’s First Accounts program offered no-fee accounts with a minimum balance of \$1 for checking accounts for youth 18 and older and savings accounts for youth 14 and older.
- Juma’s financial partner, Citibank, modified existing banking products by eliminating fees:
 - Checking accounts had free Citibank ATM use; five free withdrawals at non-Citibank ATMs, free online banking and no fees for two years. The minimum balance was \$1, lowered to \$0 after two years; \$1 minimum opening deposit.
 - Savings accounts had free Citibank ATM use; five free withdrawals at non-Citibank ATMs; and free online banking. There was no monthly fee for two years; after two years, \$3.50 per month unless minimum balance of \$500. There was an initial minimum balance of \$0 and a \$1 opening balance.
- Juma’s clients were offered Citibank’s Access Accounts, which are checking accounts without paper checks designed to prevent overdrafts.