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Union Bank of California Brings Convenience Banking to Communities

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There was a time when the primary business of banks was to meet the financial services needs of families and communities. This is still a key part of the mission of Union Bank of California, NA (UBOC).

For almost a decade, the management team of UBOC's Community Banking and Investment Services Group has focused on creating business models in low- and moderate-income (LMI) communities that can benefit consumers, shareholders, and the economy. UBOC's evolving business models are comprehensive, encompassing facilities design, strategic location and pricing, innovative approaches to risk management, a mix of traditional and transitional products, technology, financial education, and active collaboration with community leaders and service providers.

More than 15 percent of American families living in major urban areas no longer maintain their principal financial relationship with a bank or thrift. Among lower-income and immigrant families, the incidence of unbanked households is significantly higher. On the other hand, the ubiquity of alternative financial service providers in LMI neighborhoods -- such as check cashers, money transfer firms, money order companies, rent-to-own stores, pawn brokers, payday advance and sub-prime lenders -- demonstrates that there is a significant demand for financial services in these communities.

This paradox creates a dual opportunity for the community and the traditional financial services industry. The challenge is straightforward: Can banks leverage the demand for services by formulating a strategy designed not only to pursue financial service revenues but also to provide a servicing process that will enhance individual financial lifestyles, create new homeowners and business owners, and help communities become more self-sufficient?

The traditional banking model does not generate target rates of return in LMI communities. The high overhead of the traditional bank delivery platform is a big factor, but not the only one. Many LMI consumers do not find the traditional mix of bank services useful or attractive. They have experienced, or expect, difficulties with acceptance of personal checks for their day-to-day expenses. Others are inexperienced in handling checking accounts or, if they have immigrant status, may face legal and documentation problems in setting up accounts. They may also be reluctant, or unable, to borrow in larger amounts, for longer terms.

Union Bank's approach

In 1993, Union Bank of California established its first *Cash & Save* office in Los Angeles, the beginning of a growing network of banking facilities in LMI communities that offer a full range of check-cashing services, transitional banking products and mainstream consumer banking products at affordable prices. Transitional products, such as a \$10 opening-deposit savings account accompanied by money orders, help clients move from check-cashing to traditional checking, savings and credit. *Cash & Save has successfully transitioned approximately 40 percent of repeat check-cashing customers to traditional bank product usage.* Financial education has been a key part of Cash & Save's success. In collaboration with community based organizations, schools, employers, and churches, Cash & Save managers conduct regular basic banking and economic literacy seminars.

In pioneering this hybrid check-cashing/banking initiative, UBOC's primary challenge has been the strategic placement of Cash & Save facilities in the appropriate distribution channels. We experimented with Cash & Save facilities in a variety of venues in both urban and rural communities: in existing branches, in stand-alone check-cashing stores offering banking services, in retail and warehouse grocery store locations, and even in a laundromat/multi-retail setting where several businesses share a common lobby. Then our challenge was to expand this model at a reasonable pace, with minimal capital expenditures, in high-volume distribution channels.

Although transitional products and financial education were critical to the success of our Cash & Save initiative, we could not have succeeded without active community involvement and support. Part of our challenge, then, has been to identify exceptional community-based partners that can take a central role in transitioning check-cashing customers to mainstream banking.

In March 2000, UBOC entered into an innovative new financial services model in alliance with Navicert, Inc. (*dba* Nix Check Cashing), a leader in the check-cashing business, and Operation HOPE, Inc., a premier non-profit provider of financial education in Los Angeles LMI neighborhoods. This precedent-setting partnership linked UBOC with a reputable 34-year-old check-cashing firm with 47 locations and more than 600,000 customers and with a community-based organization able to provide financial counseling and education to 60,000 participants. The underlying hypothesis was that UBOC could increase returns on invested capital by strongly linking banking services to check-cashing and financial education programs, while offering LMI families a needed and useful line of products in a safe and convenient environment.

Today ATM services, consumer deposits, loans, small business products, and educational programs are delivered to individuals and families through Nix trained staff supported by bank technology. The economic magic of this model is that the fixed cost investment, already covered by the income from the check-cashing service, is now leveraged by banking products. By overlaying financial education programs in homeownership and entrepreneurship, the model contributes to individual wealth accumulation and helps create thriving, stable communities. This is truly a two-plus-two- equals-more-than-four proposition in which everyone wins ☺ consumers, shareholders and the economy.

Challenges and caveats

Experience has taught us that the major constituencies involved in community economic development must each accept certain roles and responsibilities if efforts to promote needed products and services in lower-income communities are to succeed:

- Consumer advocates should focus on ensuring that consumers have full information and, once properly informed, full freedom of choice.
- Legislative representatives, regulatory officials, and consumer activists need to understand that products and services can only be offered successfully in an environment that allows the provider to make market returns on invested capital. Charging prices that fairly reflect the full cost of doing business makes it possible to offer, *on a sustainable basis*, the best products and pricing to the consumer. Absent such returns, capital will flow away from this market segment, diminishing the services, convenience, and quality of service available to lower-income households. Proposals for legislated controls on pricing or terms of service must be analyzed carefully to ensure that short-term political goals do not prejudice the longer-term goal of availability of services.
- Innovation requires a flexible regulatory environment. Although regulators must, of course, be concerned with the safety and soundness of any banking initiative, and with protecting consumers against abuses, the oldest of roadblocks -- “We’ve never done it this way” -- should not be allowed to stand in the way of innovative efforts to serve the needs of lower-income communities, particularly if the initiating institution has a well-established track record.

UBOC has long recognized the value of welcoming everyone to a place at the table. Last year the bank received the Department of Labor’s highest honor for outstanding employment practices, the *Opportunity 2000* Award, for its long history of promoting diversity both in its workforce and in its customer base. And two years ago *Fortune* magazine ranked UBOC first in its annual ranking of “The 50 Best Companies for Minorities.” UBOC edged out many of the nation’s largest employers. Last year the bank ranked sixth overall and first among banks.

With its strong foothold in the Cash & Save business and its investment in the Nix and Operation Hope alliance, UBOC is poised to capture a significant share of the LMI individuals and families who are ready to be mainstreamed into the banking system. We are confident that we can earn target returns on this business and lead a resurgence of interest in providing valuable banking services to lower-income families right where they need it -- in their communities.

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