Community Developments

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Using Technology to Reach the Unbanked

by John D. Hawke, Jr.
Comptroller of the Currency
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Tools to Tap a Growing Market

We had hardly heard of the term “unbanked,” when we began looking at the provision of retail financial services in underserved communities back in 1999. That term is now widely used to describe the millions of households (estimates range from 10 million to 25 million) who have no relationship with a mainstream financial institution. The marketing of products and services to this market is a brave new world for some banks. It requires overcoming barriers of language, financial illiteracy, and general fear and distrust of the banking system. But the rewards can be significant. Many of the previously unbanked will become loyal customers of a financial institution that reaches out to them and offers products providing a gateway to wealth-building — and they will recommend the bank to their friends.

This newsletter, along with our other products and services, seeks to桥 information gaps and stress some of the best practices we have seen banks using in these emerging markets. We have recently issued two analysis papers, called Community Development Insights, focusing on payroll cards and remittances. Payroll cards enable banks to attract the unbanked customers of check cashers into a direct-deposit banking relationship. Similarly, remittance services can begin to build long-term relationships with previously unbanked customers. A forthcoming analysis will look at Individual Development Accounts (IDAs), an innovative product that banks can use to help lower-income customers build assets.

OCC has District Community Affairs Officers (DCAOs) around the nation who can provide more information and guidance about these products (see listing below).

One last note to report — with some pride: Community Developments, which we have been publishing for 12 years, recently received an award from the National Association of Government Communicators, in the Best External Newsletter category. We have also expanded our overall coverage by adding a shorter online quarterly edition that focuses on community development investments. Please send us an e-mail at CommunityAffairs@occ.treas.gov if you would like to begin receiving our materials on-line.

We hope you enjoy our publications as much as we enjoy bringing them to you.

Barry Wides
Acting Deputy Comptroller
Community Affairs
The power of plastic: how banks are using technology to reach the unbanked

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

Technology is rapidly transforming the banking industry — and expanding its ability to reach the unbanked. Employers are turning increasingly to electronic payroll cards as a cost-effective way to reduce the burden of writing and processing checks. Consumers are using their payroll cards and other versions of prepaid debit cards — also known as stored value cards — as a substitute for cash and checking accounts.

Monitoring this trend, the American Bankers Association reported last December that in 2003, for the first time, electronic payments surpassed cash and checks as consumers’ preferred payment method for in-store purchases — an “evolution of payment behavior,” the ABA noted, “driven by the increasing popularity of debit cards.”

Debit cards accounted for nearly a third (31 percent) of in-store purchases in 2003, up from 21 percent only four years ago. Reliance on credit cards held steady during that time, at about 21 percent. Cash and checks, which accounted for 57 percent of in-store purchases in 1999, dropped to about 47 percent last year.

Evolution or revolution?

These data confirm that since the mid-1990s, when I became involved with the use of technology to reach the unbanked, there has indeed been a dramatic evolution in this field — really almost a revolution.

Consider, for example, the Navy Cash system, a smart card application allowing U.S. Navy surface ships to go cashless (see page 7). Individual sailors and Marines at sea use their Navy Cash debit cards for everything from buying soft drinks at shipboard vending machines to withdrawing funds in foreign currency from ATMs at ports of call. The program is proving to be a highly efficient and economical way for individuals to move part of their pay onto prepaid debit cards.

“Many banks have adapted the Electronic Transfer Account concept, developing their own fully electronic, low-cost accounts to serve the unbanked market.”

With nearly 10 million unbanked households in the United States, prepaid debit products are increasingly being used by employers to remit wages electronically to their employees. Six years ago, the Treasury Department introduced the Electronic Transfer Account (ETA) as a model product to enable all federal government employees, retirees, and beneficiaries to receive their checks via direct deposit. Many banks have since adapted the ETA concept, developing their own fully electronic, low-cost accounts to serve the unbanked market. They’ve found that these products have wide appeal — not only for unbanked retirees but also for college students, people who are new to the workforce, people who change jobs frequently, and immigrants and others who haven’t had conventional banking relationships or aren’t comfortable handling the costs and logistics of a checking account.

So what we’re seeing now is the convergence of two powerful financial forces. It’s newsworthy, for example, when many of the nation’s most influential corporations begin shifting to payroll cards, as they have been doing in recent months. And it is newsworthy when consumers decide, in effect, that a plastic card in their wallet is about all the bank they need — at least for now.

New banking relationships

Payroll cards can eliminate the need to stand in line and pay high fees at a check-cashing store. Functioning as “checkless bank accounts,” prepaid debit cards offer a convenient and generally safe way to store funds, pay for purchases at stores and restaurants, access ATMs, and pay bills. Banks have also recognized their value as low-cost, high-efficiency mechanisms for immigrants to send money home (see page 14).

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Remittance services are emerging as one of the many new ways in which banks can use debit cards to build relationships with previously unbanked customers. According to the Inter-American Development Bank, U.S. consumers sent more than $30 billion in 2002 to their families and friends in Latin America, with about one-third of the total flowing to Mexico. Banks can provide remittance services at lower cost and with greater security than other providers.

But the power of plastic goes beyond merely making connections with new customers. For example, innovative banks are also creating links between payroll cards, tax preparation services, and the earned income tax credit (EITC) — rightly described as the federal government’s most powerful anti-poverty weapon — to help move tax refunds directly into dedicated savings accounts that can aid lower-income Americans in building wealth (see page 20). Similarly, banks working with nonprofit community development organizations and various funding sources are helping hardworking families to leverage their own assets through matched-deposit Individual Development Accounts, a potentially powerful wealth-building tool (see online Community Developments article “Individual Development Accounts: Savings Incentives to Build Wealth”).

Consumer education is essential to the overall success of these new banking innovations and initiatives. Financial institutions have a clear responsibility to ensure that debit cardholders understand the fees and risks involved, even though those fees and risks generally may be lower than with, say, high-balance credit cards, and certainly lower than when relying on check-cashing and predatory payday-loan operations.

But there are also opportunities to take consumer education to another level. For instance, an initiative to help lower-income renters move to automated electronic rent payments has been coupled with an incentive program through which they can obtain, at low cost, a brand-new home computer (see page 11). For families with school-age children, the motivation to acquire a computer is powerful — and those children can help their parents become computer-literate, an almost absolute necessity these days whether one is looking for work or managing money. The common sense underlying this approach (every adult of a certain age has been humbled by watching a child at a computer) is breathtaking — and very welcome.

**Opportunities and obligations**

Computer education goes hand in hand with financial literacy education. As more people, many of them lower-income, turn to the convenience of plastic, there are both opportunities and obligations for financial institutions to work with consumers — directly or through community-based organizations — to ensure that previously unbanked customers understand debit-card finance and that they are offered access to savings accounts and similar wealth-building products.
Banks reaching out to low- and moderate-income consumers with low-cost debit accounts, remittance services, EITC links, individual development accounts, and similar products and services may receive Community Reinvestment Act (CRA) service test credit for such initiatives (see Compliance Corner, page 18).

As one would expect, the regulatory environment is evolving, along with the products themselves. But there should be no need to wait for a further regulatory impetus to ensure, for example, that consumers are fully protected against losses from theft, unauthorized transfers, or other circumstances beyond their control, and that fees are transparent and fully explained in advance. Banks committed to customer service and the preservation of their reputations will take such steps in any case, recognizing that they are simply good business practices. Similarly, when working with third-party vendors, banks will be alert to the need to perform due diligence to ensure the success of their new debit-card rollouts.

Payroll cards and other stored value cards, when accompanied by reasonable fees and linked to mainstream banking services, represent a promising way to increase consumer choice and to lead unbanked consumers up the ladder of financial sophistication, so that they can learn to use savings and credit to their advantage. A bank offering such cards to people unfamiliar with mainstream banking can cross-sell other products and build mutually profitable relationships.

What it takes, more than anything else, is a willingness to think outside the box — to recognize that the unbanked are, by and large, just as interested as everyone else (perhaps even more so) in making their money work harder and earn more. In the pages of this issue of Community Developments, and in our extensive online resources, you will find many worthwhile ideas to spur your own thinking about how to link consumers’ aspirations with innovative banking services.

The United States is, as we all know, an increasingly diverse nation. Many come from countries where banks may not have been trusted allies; others, whether immigrant or native-born, may have never had the chance to do more than go from paycheck to paycheck, or from one month’s assistance payment to the next. A bank that doesn’t write-off this market segment can help create many kinds of wealth, including some that aren’t measured in dollars alone. That’s the true power — and promise — of plastic.

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Putting payrolls on plastic — and reaching the unbanked

by Sam Frumkin, Community Affairs, OCC

Q: What’s rarer than a community banking product that serves both the biggest businesses in town and the unbanked?

A: A product that does both and that also can generate revenues for the bank: payroll cards.

Many U.S. employers are switching from paper payroll checks to plastic payroll cards. Essentially a debit card funded by a direct deposit, a payroll card may also carry the Visa or MasterCard logo. Carrying one of those two national brands or not, a payroll card functions as a stored value card that can offer important advantages to employers, employees — and banks.

Why should banks enter this market?

• Commercial customers using payroll cards see cash management benefits, such as increased direct deposit adoption rates and reduced payroll processing costs.

• Payroll cards provide income for banks, which can collect usage fees from the employer, the employees using the cards, and the merchants accepting them.

• Payroll cards are an entry point into the banking system for consumers without traditional bank accounts. As they become comfortable using the product, they can be cross-sold other products, such as checking and savings accounts, CDs, credit cards, and loans.

Consumers using payroll cards can avoid paying the high fees charged by some check-cashing businesses, and with a branded card, can make retail purchases. For the unbanked, a payroll card functions like a checking account without the checks.

Employers benefit, too. When an employer loads its employees’ pay onto payroll cards, instead of issuing, distributing, and accounting for paper payroll checks, the employer saves money by reducing check volume, reconciliation time and expense, and check fraud risk.

Are payroll cards for you?

Like all business lines, payroll cards involve risks. Issues include:

• What resources are needed to manage the program?
• Who will service the accounts?
• Has the bank performed due diligence on third-party vendors that may be used?
• Is the fee structure fair to consumers?
• Do payroll cards fall under Regulation E?
• Does deposit insurance apply?

Unresolved regulatory issues

The OCC has published guidance on this topic in Advisory Letter 2004-6, Payroll Card Systems, May 6, 2004. Several significant regulatory issues relating to payroll cards remain
unresolved. Still to be clarified is whether payroll cards are subject to the Federal Reserve Board’s Regulation E governing disclosures and other consumer protections for electronic fund transfers, such as consumer liability for unauthorized transactions and notification of any changes in fees or costs and of error resolution procedures. Rather than wait for formal clarification, however, some banks are applying Regulation E guidelines to their payroll cards merely as a good business practice. (In September 2004, the Federal Reserve Board published for comment proposed amendments to Regulation E. See http://www.federalreserve.gov/BoardDocs/Press/bcreg/2004/2004913/default.htm.)

Plastic goes to sea

How much cash does it take to float an aircraft carrier?

Aboard the USS Harry S. Truman, the answer is: None at all.

Thanks to an innovative partnership between the Department of the Treasury’s Financial Management Service (“FMS”) and the Department of the Navy’s Naval Supply Systems Command (“NAVSUP”), the Norfolk-based ship — whose motto is “The Buck Stops Here” — has adopted a “hybrid” smart card, which includes a magnetic strip (functioning like a debit card) and a smart chip (e-purse), for its entire crew. This system, known as Navy Cash, also supports automated functionality allowing cardholders to receive a salary allotment directly onto their smart card. Equipped with special red-white-and-blue Navy Cash MasterCards issued by JPMorgan Chase (Treasury’s Financial Agent), more than 5,000 crew members use the cards to receive salary allotments, access their home bank and credit union accounts, transfer funds to their families, and make purchases aboard ship and ashore.

Even the vending machines aboard the HST (as she’s known to her crew) are now cashless. To make a purchase, sailors simply swipe the card through an electronic reader. As such, supply officers no longer have to collect, count and redeploy $250,000 in quarters — roughly half a ton — every month. On a ship with anchors weighing 30 tons apiece, the weight loss is negligible but the workload savings are real.

The greatest benefit is in overall administrative simplification, with respect to reduced workload for the HST’s Disbursing Office and automated reporting. In addition, the cost and effort associated with managing currency is eliminated. Sailors can determine their account balances instantly, at any time, and can specify how their pay is to be distributed — for example with part of it loaded to their debit card (up to a maximum of $1,000 at any time) and the rest going to their home bank or credit union account. In addition, they can use their Navy Cash cards at ATMs and wherever a MasterCard is accepted, in any port of call. The smart card has built-in security features as well, such as use of a PIN for most ship-base transactions and the ability to immediately “hot list” cards reported lost or stolen.

The Navy Cash Card is available for use instead of cash on board more than 20 ships.

The program had its origins in 2001, when FMS and NAVSUP installed the application aboard the first two pilot ships, a guided-missile frigate and an amphibious assault ship. The program expanded to eight ships in 2003, and has extended to 16 more thus far this year, with about 25,650 Navy Cash cards now in use. NAVSUP plans to go cashless aboard a total of 175 ships by 2008.

For FMS, which annually disburses more than $1.7 trillion in federal payments and benefits, the Navy Cash program is a natural fit with its goal of reducing the cost of such transactions and eliminating currency aboard ships. NAVSUP, charged with providing quality supplies and services to U.S. Naval forces, sees Navy Cash as a way to improve quality of life and benefits to participating sailors and Marines.

Meanwhile, aboard the USS Harry S. Truman, the Navy Cash program is getting high marks. “We couldn’t be any happier with it,” Cmdr. John King, the ship’s chief supply officer, told a Norfolk Virginian-Pilot reporter. “There were some skeptics when we first started. Now we have very few naysayers.”

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Another regulatory issue involves deposit insurance coverage, which may vary depending on how the payroll card funds are held by the bank. In an effort to clarify whether deposit insurance covers evolving products, such as payroll cards, the FDIC recently published for comment a proposed rule discussing whether the funds underlying stored value cards meet the definition of “deposits” under the Federal Deposit Insurance Act. The proposed rule is available online at www.fdic.gov/regulations/laws/federal/04DEPDEF.pdf.

Finally, there are state laws to consider. For instance, some states require employers to provide employees with a means of accessing their pay at no cost. How these laws apply to payroll cards is still not clear.

**Choose partner wisely**

Banks can serve as program operators, but only those with large-scale credit card operations are likely to do so. Others will likely turn to non-bank vendors, including credit card merchant processors, human resources firms, or payroll firms.

Banks partnering with other firms must establish from the start whether the partner or the bank will handle the new tasks created by the payroll card program, including fiduciary responsibilities for disbursed funds, transaction settlements, record-keeping, and funds storage. Banks also must consider vendors’ experience and ability to oversee a payroll card program. Even if the program is totally outsourced, the bank will need to monitor the arrangement to ensure that the bank does not incur financial harm or risk damage to its reputation.

**What’s ahead**

While most banks are offering payroll cards only through employers, a few are going directly to consumers. One bank saw payroll cards as a way to reduce the costs it incurred from cashing 9 million payroll checks annually. The bank figured that customers who stood in line for 45 minutes on paydays to cash a payroll check might be receptive to hearing about payroll cards from tellers (who were paid an incentive for promoting the cards). The plan is working — and the bank’s payroll card program has converted 1,700 unbanked persons into new customers.

**“Consumers using payroll cards can avoid paying high fees charged by some check cashing businesses, and with a branded card, can make retail purchases.”**

Other banks are using payroll cards to serve immigrant populations. They are offering a payroll card that can be used, in combination with other bank products, to make low-cost transfers of funds to customers’ family members in Mexico.

In fact, all types of payroll cards are making inroads. Use of these cost-efficient, convenient wallet-size cards has grown from virtually nothing five years ago to the point where 2 to 3 million consumers will use them this year, according to the Pelorus Group, a marketing research firm.

Banks interested in seeking positive consideration under the Community Reinvestment Act (CRA) service test will need to demonstrate how their payroll card products qualify as community development (CD) services. For more information on this topic, see the *Compliance Corner* article in this issue of the newsletter.

With demand for payroll cards increasing, bank involvement in the market makes it more likely that consumers will get a fair shake. And a bank that reaches out to a previously unbanked customer through a payroll card program may find that the card opens the door to a lifelong banking relationship.
Electronic transfer accounts:  
a great way to reach unbanked federal benefit recipients

by Eleanor Kelly, Program Manager, Financial Management Service, U.S. Department of the Treasury

The federal government writes more than $141 billion every month in checks to civilian and military employees, veterans, Social Security beneficiaries, and other recipients, millions of whom do not have checking accounts. There is a clear need to replace the cost and inconvenience of paper checks with a safe, secure and convenient way for unbanked recipients to receive and access their funds through low-cost direct-deposit accounts. Six years ago we developed the Electronic Transfer Account (ETA) to meet that need.

Thus far nearly 100,000 previously unbanked recipients of federal checks have opened ETAs, and participating federally insured financial institutions are opening 2,000 to 2,500 new ETAs every month. Many banks have embraced the program and are using it to build strong relationships with previously unbanked persons.

We want to encourage more banks to participate as certified ETA providers and to actively promote these attractive accounts, which can be a gateway to participation in debit cards and other mainstream banking services.

The basic ground rules are straightforward. Any person who receives a federal benefit, wage, salary or retirement benefit is eligible for an ETA. The account must offer the same consumer protections that are available to other account holders at the financial institution. The ETA holder must be entitled to at least four cash withdrawals and four balance inquiries per month; must have access to the bank’s online point-of-sale (POS) network; and cannot be charged more than $3 a month for these services, which do not include check-

Coming soon: the cellphone wallet

Cellphones may never replace ATMs if you want to hold hard currency in your hands, but for other purposes they are rapidly becoming multi-function electronic wallets — even an alternative to the traditional bank account, and to the plastic debit and credit cards so ubiquitous today.

More than 170 million Americans own cellphones, including millions of unbanked persons. Soon they may be using their phones to store funds, order merchandise, and pay their bills.

It is already happening in Japan, where there are 81.5 million cellphones in a nation of 127 million people. A new generation of phones that went on sale in Japan this summer carry an embedded computer chip that can be loaded with electronic cash, up to a 50,000 yen ($450) limit. (For now, the only way to load them is at special machines that accept both the phone and cash currency, but eventually preloading by electronic transfer will be feasible.)

Once loaded, the phone can be used like a debit card in stores, theaters, restaurants, vending machines, and commuter trains. Your purchase appears on a special display, you wave the phone in front of a scanner, and the amount of the purchase is deducted from the embedded chip. You can also use the phone to pay bills — and for myriad unrelated purposes, from downloading music to filming short videos. (Yes, you can even use it to make phone calls.)

Cellphone technology is more advanced in Japan than in most of the world, thanks in part to adoption of a standardized cellular language that facilitates high-speed Internet communication. But other countries are moving ahead with developments that are creating new opportunities for unbanked persons.

For example, the largest cellphone company in the Philippines recently launched a phone-based remittance service that allows Filipinos working abroad to send money home more quickly and at a lower cost than through money-transfer companies. The potential market is huge: 8 million Filipinos working abroad sent $7.6 billion home last year, and about 30 percent of the country’s 84 million people use cellphones.

The worker abroad goes to any of the phone company’s remittance partners in 17 countries, pays to preload the phone, and sends a text message to the recipient in the Philippines, advising of the transfer, which is instantly credited to the recipient’s account with the phone company and to a “smart” debit card that enables withdrawal of the money at ATMs around the country, using a PIN to guard against fraud.

And in some traditionally cash-dependent (and robbery-plagued) African cities, a new system called Celpay — which advertises that “your phone is your wallet!” — enables consumers with specially equipped cellphones to put money into their accounts either via a transfer from a bank account or, if unbanked, by depositing cash at a partner bank. Using the phone, the consumer enters the amount to be paid to a merchant, also inputting an invoice number if applicable, and authenticates the transaction with a PIN. Celpay instantly transfers the money to the merchant’s Celpay-enabled account, sweeping the funds to the merchant’s main bank account if so instructed. Both payer and payee receive a confirmation of the transaction, with full details available online.

The cellphone as electronic wallet appears to be an idea whose time has come, although technical, security, and regulatory concerns may slow its adoption in the United States. Even in Japan, where a lost phone can be ‘locked’ by the wireless carrier to prevent unauthorized access to the cash-dispensing chip, consumers are advised not to put more money into their phones than they can afford to lose — just like cash in an old-fashioned leather wallet.

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writing. Treasury pays participating institutions a one-time fee of $12.60 for each new ETA.

The Federal Reserve Bank of Dallas certifies financial institutions seeking to participate in the program. Contact Federal Reserve Bank of Dallas at 1-888-ETA-3725 to learn more about becoming a certified ETA provider.

**Tips for success**

A few pointers will help your financial institution manage a successful ETA program and increase the volume of direct deposit payments received:

- **Cross-sell** ETAs to customers and non-customers who deposit or cash their federal checks in your lobbies. Make them aware of the increased safety, security, and convenience of direct deposit. Explain the benefits of having a basic, low-cost account with access to ATMs and with no minimum balance requirements (except as required by federal or state law).

  “**ETA’s are an excellent way for banks to attract customers who have no experience with traditional banking accounts.**”

- **Train** all your new-accounts personnel and customer service representatives to be fully aware of the availability and features of your institution’s ETA program. The toll-free ETA Call Center (1-888-382-3311) frequently hears from prospective ETA customers who were turned away because representatives of a participating provider were not aware that their institution offers the ETA, or for other reasons. Make sure your employees understand that all federal payment recipients are eligible to open an ETA regardless of past banking history (unless the individual has engaged in fraud with another ETA or has misused an ETA at that same institution).

  - **Attract** federal recipients to your ETA products through “warm transfers.” When federal payment recipients are directed to call the ETA Call Center for program assistance, the operator can transfer those phone calls to a selected provider’s customer service number to begin the process of opening an ETA. So prospective ETA customers can get their questions answered and begin opening an account with one phone call. You can request “warm transfers” from the ETA Call Center to your customer service number by contacting Federal Reserve Bank of Dallas at 1-888-ETA-3725.

  - **Promote** your ETA product on your Web site. If you do, the Dallas Federal Reserve can provide a link to your site from the ETA Web site (www.eta-find.gov). This site, recently redesigned, currently receives hundreds of visits daily from federal payment recipients seeking information on the ETA program and other information such as providers’ branch locations — so it’s another good way to attract new business. Once at your site, Internet users can access information about your other services as well as your ETA product.

**ETA Basics**

- Any person who receives a federal benefit, wage, salary, or retirement benefit is eligible for an ETA.
- The account must offer the same protections as other account holders at the financial institution.
- The ETA holder:
  - Must be entitled to at least 4 cash withdrawals and 4 balance inquiries per month.
  - Must have access to the bank’s point-of-sale network.
  - Cannot be charged more than $3 per month for these services which do not include check writing.
- Treasury pays participating institutions a one-time fee of $12.60 for each new ETA.

ETAs are an excellent way for banks to attract customers who have no experience with traditional banking accounts. Treasury’s Financial Management Service and Federal Reserve Bank of Dallas stand ready to help you offer this important, efficient, and productive public service.

For more information, contact Eleanor Kelly at (202) 874-6838 or Eleanor.Kelly@fms.treas.gov
Millions of Americans remain disconnected from mainstream financial services. Nowhere is this more evident than in America’s rental housing. More than 25 percent of the nation’s unbanked are renters, and more than 15 million renters are unbanked. The concentration of the unbanked is particularly high among the more than 5.5 million households living in government-supported rental housing.

Telling people that financial services are “good for you” doesn’t move them to act. What’s needed is a multi-faceted approach in which (1) the process of securing and using banking services is demystified by a trusted partner; (2) the services are accessible in a comfortable setting, such as home or work; and (3) the services become so integrated into a person’s life — such as by helping to achieve a much-desired goal — that using them becomes second nature.

One Economy has built its technology-led initiatives to bring the unbanked into the financial mainstream around these principles. We help landlords to demystify the process for tenants; we ensure that low-income and low-literacy renters can access information and learn in the dignity and privacy of their own homes; and we help them acquire a resource — a home computer — that they desperately want for their children’s education.

**Incentives for rent payments**

Affordable rental housing is typically owned by public housing authorities and by private nonprofit and for-profit organizations (‘housers’). Much of this housing is financed through programs such as the low-income housing tax credit, direct grants from the federal government, and federal operating subsidies to the owners or the low-income tenants. Most housers serving this population want to do all they can to help stabilize renters’ lives and connect them to the social and financial services that can help them become part of the economic mainstream. In many cases, this creates a unique trust relationship between the houser and its tenants — a relationship that is crucial to the success of our approach.

Houser interest in this approach, however, is not driven solely by altruism. Most housers lose up to 10 percent of their potential rental income annually to nonpayment or delayed payment of rents. An approach that promises to reduce these losses, through regular electronic rent payments, can save millions of dollars and free up resources to help renters move further into the financial mainstream.

“The Beehive shows low-income people how to connect to mainstream financial services, manage their money, and build assets.”

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The Beehive offers financial literacy through a home computer.
Our approach features (1) a rent rebate incentive program that gives renters a 3 percent rent rebate annually if they have secured basic banking services that enable them to pay their rent electronically every month; (2) an aggressive marketing and outreach program for housers that describes the program, recruits participants and creates opportunities for housers, other residents, and bank staff to explain the basics of banking services and their value; and (3) close working relationships with a banking partner to create an efficient and scalable mechanism that meets the needs of renters and housers alike.

In 2003, we partnered with U.S. Bank and the Low Income Housing Institute (LIHI), a leading Seattle-based nonprofit housing developer, to test this model with 25 residents. The success of the pilot led the Annie E. Casey Foundation and Citibank to expand its scope in 2004, targeting 100 residents in Miami at properties owned and managed by Greater Miami Neighborhoods (GMN), one of Florida’s leading nonprofit housing developers, and in Chicago at properties newly acquired by Mercy Housing.

The initial rollout in Miami demonstrated how well this approach can work. Citibank made staff available to explain banking basics and the rebate plan. On the first Saturday in April, as residents came into the management office to pay that month’s rent, Citibank and GMN staff were there to help them move from reliance on money orders to debit cards or even regularly scheduled online rent payments. Of the 40 residents who came in, 19 signed up for new accounts on the spot.

Citibank is installing a debit card ‘swipe’ at the office so people can simply bring their debit card in, just as they used to bring their blank money orders on rent payment day. We are demystifying the process, making it easier for people to pay rent and providing a 3 percent bonus to boot. Rent payment is less costly and burdensome for residents, more predictable and consistent for housers — and banks get new customers using cost-effective electronic services.

In 2003, working with City First Bank, N.A., a community bank in Washington, D.C., we developed a loan guarantee program that required purchasers to make a $100-200 down

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**Computers within reach**

No asset is more valued in low-income households than a home computer. Parents see a computer as essential for their children’s advancement, yet fear they can’t afford one. We found that renters would jump at the chance to buy a computer if they could do so for less than $25 per month, so we set out to create a loan product within this affordability range.

In 2003, working with City First Bank, N.A., a community bank in Washington, D.C., we developed a loan guarantee program that required purchasers to make a $100-200 down
payment and execute a loan, not to exceed $400, that brought a new computer to their door. Monthly costs were below $25 if the loan was paid back within two years. By the end of the year, 50 loans had been made; 20 have since been paid in full, prior to the end of the loan term, and we have had only one default.

Our early success led to similar arrangements with California Bank and Trust in San Francisco and San Jose; the Water & Power District Credit Union in Los Angeles; and the Kellogg Federal Credit Union in Battle Creek, MI. The credit unions were eager for new customers and required no loan guarantees at all for working families. In many cases, borrowers have expanded their banking relationships after developing a trusting relationship with the lender.

**Financial literacy at home**

Many of our customers tell us they don’t use mainstream products and services because they don’t understand them, know how to use them, or know anyone who can help. Attacking this “knowledge divide” head-on, we provide self-help-oriented content in English and Spanish on The Beehive (www.thebeehive.org), our consumer Web site, which is geared to lower levels of income and literacy.

“We are demystifying the process, making it easier for people to pay rent and providing a 3 percent bonus to boot.”

Every month, more than a third of The Beehive’s 300,000-plus users go to the Beehive’s Money section for help and guidance. There they learn how to connect to mainstream financial services, manage their money, and build assets. The site covers such topics as checking accounts (why you need one and how to open one); investing (why you should invest your money and how to start); and managing your money (including tips on starting a budget and getting money back in taxes through the earned income tax credit).

Interactive tools — such as a simulated ATM — further help to demystify the financial services system. Another example, developed with the help of the Fannie Mae Foundation, is *What You Should Know About 401(k) Plans*, an interactive approach to educating the low-income consumer about the importance and benefits of financial planning.

We have recently launched two exciting new tools on The Beehive. One, sponsored by Citibank, is a *Guide to Helping You Better Manage Your Cash*. The other, sponsored by Key Bank, is a comprehensive, self-directed financial literacy course. The cash management guide focuses on what matters most to people: ease of cashing checks, paying bills, saving money, and wiring money home. For example, it walks people through a side-by-side comparison of their current check-cashing ways and costs compared to the advantages of doing business the mainstream way. We built the financial literacy course for people to complete at their leisure and for financial literacy programs to use to augment their classroom instruction.

**Lessons learned**

Low-income people are more comfortable with technology than you might think, especially when they have kids at home to help accelerate the process. They are smart consumers, too. If you provide incentives, they’ll act: every computer loan program we have offered has been oversubscribed.

Financial issues are very personal. The more access that people have to technology and information at home, the more they will be engaged and use that technology.

Landlords have strong incentives to bring their residents into mainstream banking. Partnerships between housers and financial institutions make good business sense.

Financial education matters — but what matters even more is linking that education to products and services that people need and want now, whether it is help with paying the rent or ensuring that their children thrive in school.

### Who are the unbanked?

- About 10 percent of American households have no checking or savings account.
- More than 80 percent of families without a checking account have annual incomes below $25,000.
- More than 60 percent of families without a checking account are minorities.

For more information, contact Ben Hecht at (202) 393-4660 or bhecht@one-economy.com
When Banamex, Mexico’s leading bank, merged into the Citigroup family of financial companies in 2001, we began looking for ways to better serve customers on both sides of the border. Citigroup’s acquisition in 2002 of Golden State Bancorp, gave us an expanded branch network and a greater ability to reach Hispanic customers in the western U.S.

We knew that many recent immigrants had banking needs but lacked even the most basic banking relationships. Chief among their needs were inexpensive and user-friendly remittance services to enable them to send funds to families or friends back home, and basic bank accounts offering security and convenience.

In April 2003, we introduced Citibank Global Transfers, which offers U.S. bank customers affordable, convenient, real-time money transfers domestically or to Mexico for a flat $5 fee. With a money remittance service in place, we then turned to offering products to support sending funds from the U.S. and receiving them in Mexico. Our solutions are the Citibank Access Account and the Banamex Tricolor Card, two new products that we rolled out in the fall of 2003.

**Focus on simplicity**

Both products were designed with a focus on simplicity.

The Access Account debuted as an entry-level, “checkless” checking account, and provides an affordable origination mechanism for Citibank Global Transfers from the U.S. The Tricolor Card, issued by Banamex in Mexico, allows recipients of the transferred funds in Mexico to access the funds through Banamex branches, ATMs or debit card channels throughout the country, safely, and efficiently.

The Tricolor Card operates much like the prepaid cards that are prevalent in Mexico. To obtain one, a consumer goes to any Banamex branch and purchases a card for a one-time fee of 25 pesos (about US$2.50). The plastic has a card number on it, but no name, and the consumer selects a personal identification number (PIN). The cardholder then contacts the Citibank account holder in the U.S. and provides the Tricolor Card number. The U.S. account holder merely enters the Tricolor Card number as the destination for the Citibank Global Transfer. Transferred funds are immediately available in Mexico to the Tricolor cardholder, who can use it at Banamex branches and at any ATMs or point-of-sale debit locations in Mexico (but not outside the country).

For those without a Tricolor Card, remitted funds can be picked up in cash at any Banamex branch. But the Tricolor card offers greater security, since funds can be accessed as needed rather than having to be fully redeemed in cash at one time.

**Attracted to Access**

As we proceeded with Access Account’s pilot in Chicago, we were surprised to discover the wide range of consumers who were interested in the product. While focusing on the underbanked, we found that senior citizens, students, technology-savvy consumers and others with limited transaction needs were also attracted to the features of the Access Account. Most importantly, however, recent immigrants and people who had never previously had a banking relationship were drawn to its features and the low $3 monthly maintenance fee, waived with direct deposit.

The Access Account was designed to be a “starter” account that also offers a wide range of low-cost and convenient financial services. As such it may be unique.

Because our research identified check writing as a major obstacle for many unbanked consumers, one of the account’s strengths is “checkless” checking. Unbanked consumers had told us they were not confident about writing checks and worried that they might overdraw their accounts, incurring additional fees. With a debit-card-only
account, and no paper checks, the account can’t be overdrawn, putting this concern to rest. Unlimited free bill payment is provided through online banking or automated telephone service, in English and Spanish. Citibank Global Transfers can be sent from Citibank ATMs in multiple languages or through English or Spanish online banking and soon by phone.

“We knew that many recent immigrants had banking needs but lacked even the most basic banking relationships.”

Earlier, in 2002, Citibank began accepting the matricula consular, the Mexican Consular ID, as a form of primary identification for account-opening purposes. By adding this form of identification to its list of acceptable IDs, which also include passports, driver’s licenses, government-issued photo IDs and others, Citibank was more easily able to offer banking services to recently arrived immigrants from Mexico.¹

The Citibank Access Account was also designed to make it easy for consumers to improve their financial security and plan for the future. The bank wants to impress upon these customers the importance of credit, and so it offers a secured credit card to those customers without a credit history. After 18 months of satisfactory payments, the customer may be eligible for an unsecured credit card.

The value of security

We have been surprised that many recent immigrants have opened Access Accounts with considerably higher balances than we anticipated. We think it’s because we are offering security beyond what they have ever experienced. Previously they kept cash hidden at home or carried it with them — and worried about being robbed. Now they no longer worry about that, and by using Citibank’s remittance services they can be confident that the funds they send home will reach their loved ones.

This summer Citigroup introduced a new binational program for its Banamex USA credit card customers in the U.S. who want to share their lines of credit and other benefits with their families or friends in Mexico. It is the first, and thus far the only product of its kind currently offered in both countries.

A U.S. cardholder is issued a Banamex USA card by California Commerce Bank, the U.S. banking arm of Banamex, and the designated participant in Mexico is issued a card by Banamex. The U.S. customer receives a monthly statement listing all activity on both cards. The cardholder in Mexico receives a monthly courtesy statement, reflecting only his or her activity. The U.S. cardholder may make dollar payments on the entire bill, or allow the cardholder in Mexico to pay his or her portion in pesos at any Banamex branch.

The cardholder in Mexico may take cash advances on the card for a $5 fee. In this way the binational credit card becomes another efficient mechanism for sending remittances. The U.S. cardholder pays a $29 annual fee for the dual-card feature on the account.

This August, Citigroup announced it would acquire First American Bank in Texas. The addition of over 100 branches in the state will give Citibank an important footprint in Texas from which to grow. It will also enable the bank to begin serving the needs of the large Mexican-American population in Texas. In a relatively short time, Citigroup has successfully rolled out several products and services to meet the needs of unbanked and underbanked people living on both sides of the U.S.-Mexico border. Step by step, we are knocking down the barriers — the borders, if you will — between the unbanked and mainstream banking. And in doing so we are developing strong, lasting relationships with our new customers.

For more information, contact Mark Rodgers at (212) 559-1719 or rodgersm@citigroup.com

¹ The Customer Identification Program (CIP) rule implementing section 326 of the USA PATRIOT Act neither endorses nor prohibits bank acceptance of information from particular types of identification documents issued by foreign governments, such as the matricula consular. Instead, a bank must decide for itself, based upon appropriate risk factors, whether the information presented by a customer is reliable.

• The Treasury Department estimates that, on a worldwide level, remittances sent by workers to their home countries exceeded $90 billion in 2003. About one-third of these remittances are monies U.S. consumers sent to family and friends in Latin America.

• Remittance services are emerging as one of the may ways in which banks can use debit cards to build relationships with previously unbanked customers.

• OCC’s Community Developments Insights, “Remittances: A Gateway to Banking for Unbanked Immigrants,” [www.occ.treas.gov/cdd/remittances.pdf] addresses the role of banks in providing money transfer services and discusses a number of legal, compliance, and operational considerations that financial institutions should be aware of when offering remittance products.
It's expensive for the state of Oregon to prepare, print, and mail nearly 80,000 unemployment checks every week, and it's costly for the thousands of recipients without bank checking accounts to cash their checks at check-cashing stores that charge fees of up to $10 per check. There has to be a better way — and there is.

Earlier this year, working with U.S. Bank, the state began issuing prepaid debit cards to unemployed workers who request them. The state saves on mailing costs, recipients get their money sooner, and cardholders can use their Visa cards to make purchases just about anywhere — including online, where cash won't work.

Prepaid debit cards are a powerful tool for financial institutions working to help state governments and private-sector employers cut the costs of issuing paper checks for ongoing payments. And debit cards are an excellent way to reach customers who may not have access to traditional banking products.

**Multiple benefits**

Prepaid debit cards work well with programs that allow an employee or benefits recipient to choose between direct deposit or check disbursement. And moving from checks to prepaid debit cards eliminates the expense of issuing checks as well as the costs of reissuing lost or stolen checks, recovering losses from fraudulent checks, and cutting off payments when checks go uncashed. The cardholder, aside from no longer having to depend on check-cashing stores, obtains all the benefits of a fully functional Visa card, which is usually out of reach for the unbanked.

U.S. Bank is one of the largest issuers of reloadable Visa-branded prepaid debit cards in the United States, and currently has products in three distinct areas: government disbursements, payrolls, and insurance payments.

The **U.S. Bank ReliaCard** is used to disburse ongoing state payments, such as child support and unemployment insurance. Later this year, U.S. Bank will also make the ReliaCard available for Temporary Assistance for Needy Families (TANF) programs.

Iowa, Colorado, Washington, and Minnesota currently use our cards for child support payments, and Oregon, as previously noted, uses them for unemployment payments. U.S. Bank currently has approximately 100,000 reloadable prepaid cards in force in the government disbursement market, with three more states planning to join the ReliaCard program in the next few months. Savings are significant: Iowa reports saving more than $420,000 per year in postage alone.

We market the **U.S. Bank AccelaPay** to employers seeking to shift employees to direct deposits. As with the ReliaCard program, benefits include eliminating the expenses associated with issuing paper checks, lost/stolen check re-issuance, fraud loss, monthly reconciliation, and escheatment responsibility. Cardholders benefit from improved access to their funds. More than 60 companies have switched already to AccelaPay.

In the insurance market, we issue a Visa-branded card for an insurer making long-term disability payments, and we are evaluating other opportunities.

We anticipate significant portfolio growth because of the clear benefits to consumers as well as our government or corporate partners. The inconvenience and cost of check-cashing is eliminated, and the card can be used anywhere Visa debit is accepted and at ATMs to withdraw cash.

**How does it work?**

Participants learn about the program and enroll through the state (or employer or insurer), which then submits the enrollee’s information to U.S. Bank. We then issue a personalized Visa debit card embossed with the cardholder’s name and mail it directly to the cardholder.
Once the account is activated, the state can begin to put funds on the card. Card funding (“loading”) is facilitated via the standard automated clearing house (ACH) banking process with an ABA routing number and mutually agreed-upon identification number specifically for the cardholder. Once the card is loaded, the user has immediate access to the funds anywhere Visa debit is accepted, or at an ATM. We mail a monthly statement to the cardholder with detailed information on how and where the money was spent. Account information is also available 24/7 on U.S. Bank’s ReliaCard and AccelaPay Web sites.

Some states and employers have decided to mandate direct deposit of distributions, either to a traditional checking/savings account or to a prepaid debit card, while other states and employers are offering prepaid debit cards as an option. Either way, it’s important to help consumers understand how to use the card. We work closely with states and employers to develop educational materials and training for cardholders. When disbursers will no longer be issuing checks, the education process starts well in advance of the issuance of cards. Each cardholder receives comprehensive usage instructions in the package containing the card. Information is also available on some states’ Web sites (as well as on U.S. Bank’s ReliaCard and AccelaPay Web sites). We work with our state and employer partners to develop marketing materials that will encourage enrollment in the card program.

Lessons learned

One of the real benefits of the card, we have discovered, is that cardholders become much less reliant on cash after a month or two. They realize that they do not need to visit an ATM often to get cash because they can use the card for everyday purchases — and the detailed monthly statement can help them budget by giving them a better handle on where their money is going.

As with any new service, continual cardholder education is key to the success of the program. That is why we work closely with the states and employers on an ongoing basis to reinforce the benefits of the card and to communicate information, such as where the card can be used and how the cardholder can avoid fees.

Somewhat to our surprise, we have learned that it is not only the unbanked who are electing to enroll in the ReliaCard or AccelaPay program. Many cardholders also have traditional checking or savings accounts, but use the card as a budgeting tool to keep certain payments separate from other family funds. Some AccelaPay cardholders use their cards as a forced savings tool for vacations, holiday gifts, or other spending. ReliaCard customers report that having a separate funding and spending vehicle for child support is one of the primary benefits of the card.

A major benefit is that cardholders can use the card to make purchases at any of the millions of merchants that accept Visa debit cards worldwide. That’s especially important to many users who have never had such a card before. With the card, they can now make purchases — and keep track of them — at grocery stores, home improvement centers, department stores, discount stores, even fast food restaurants, and via the Internet or phone, which is almost impossible without a credit or debit card.

U.S. Bank is committed to bringing more consumers into the banking mainstream. Prepaid debit card programs, such as ReliaCard and AccelaPay, are making that goal a reality, and will be part of our portfolio for years to come.

For more information, contact Gaye Crandall at (651) 205-2567 or gaye.crandall@usbank.com.

Examples of CRA Community Development Services

- Providing electronic benefits transfer and point of sale terminal system to improve access to financial services such as by decreasing costs, for low-or moderate-income individuals.
- Providing other financial services with the primary purpose of community development, such as low cost bank accounts, including “Electronic Transfer Accounts” provided pursuant to the Debt Collection Improvement Act of 1996, or free government check cashing that increases access to financial services for low-or moderate-income individuals.
- Offering international remittances accounts, combined with low-cost accounts that increase financial services for low-or moderate-income individuals.
Advances in technology may benefit a bank in many ways: lower costs, reduced fees to customers, additional retail delivery methods, the potential for improved access to financial services for customers, and perhaps positive consideration under the Community Reinvestment Act (CRA). This issue of Community Developments features some of the technological advances that can bring more unbanked persons into the financial system. Here we will focus on how providing improved access to financial services for low- or moderate-income persons can result in positive consideration under the CRA service test.

The service test is required in every large retail bank’s CRA evaluation. It is optional under the small bank test, however. The service test has two parts. First, it evaluates a bank’s record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank’s systems for delivering retail banking services. Second, it evaluates the extent and innovation of a bank’s community development (CD) services. Let’s look at the latter.

Examiners will focus primarily on the responsiveness of the CD services to the needs of the community, considering the level of innovation involved in providing those services. The number of CD services provided is secondary. So, with that in mind, let’s take a closer look at what constitutes a CD service.

A CD service is a service that —

a. Has as its primary purpose community development.
   - Affordable housing (including multifamily rental housing) for low- and moderate-income individuals.
   - Community services targeted to low- or moderate-income persons.
   - Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of 13 CFR 121.301 or have gross annual revenues of $1 million or less.
   - Activities that revitalize or stabilize low- or moderate-income geographies.

b. Is related to the provision of financial services.

A CD service is one that is of the type generally provided by the financial services industry. By contrast, activities that do not take advantage of the employees’ financial expertise, such as neighborhood cleanups, do not involve the provision of financial services.

c. In the case of personal charitable activities, is provided by a person as a representative of the bank.

For example, if a financial institution’s director, on her own time and not as a representative of the institution, volunteers one evening a week at a local community development corporation’s financial counseling program, the institution may not consider this activity a community development service.
d. Has not been considered in the evaluation of the bank’s retail banking service.

For example, branch distribution is considered under the retail services part of the service test.

**Typical CD services include.**

- Providing technical assistance on financial matters, such as service on a loan committee for a CD organization.
- Informing community members about how to get or use credit or otherwise providing credit services or information to the community.
- Serving on the board of directors of an organization that promotes credit availability or finances affordable housing.
- Providing technical assistance about financial services to community-based groups, local or tribal government agencies, or intermediaries that help to meet the credit needs of low- and moderate-income persons or small businesses and farms.
- Providing credit counseling, homebuyer and home-maintenance counseling, financial planning, or other financial services education to promote CD and affordable housing.

**Technology and CD services.**

When technological advances result in retail banking services that reduce the costs of, or otherwise improve access to, financial services for low- or moderate-income persons, they may be considered a CD service.

Increased use of technology may reduce consumers’ banking costs, improve security over their funds, and increase their access to financial services. However, to qualify as CD services, these financial services must be targeted to low- and moderate-income persons. For example, low-cost bank accounts or free government check cashing and similar services that increase access to financial services for low- or moderate-income persons would be considered CD services. Electronic benefit transfer and point-of-sale terminal systems that are designed to improve access to financial services, such as by decreasing costs for low- or moderate-income persons, would also receive favorable consideration as a CD service.

The electronic transfer account (ETA), described on page 9, is a low-cost account offered by participating federally insured financial institutions to people who receive federal benefit, wage, salary, or retirement payments. When the ETA increases access to these federal payments for low- or moderate-income persons, such as Supplemental Security Income (SSI) recipients, it qualifies as a CD service.

Expanding access to direct deposit, using accounts other than the ETA, especially to recipients of federal payments who do not presently have deposit accounts, is also relevant. When such an account is free or low-cost and improves access to financial services for low- or moderate-income persons, it would qualify as a CD service. For example, a direct deposit account receiving SSI payments generally would be targeted to low- or moderate-income persons. However, an account established to receive federal salary payments probably would not be targeted to low- or moderate-income persons and would not be considered a CD service.

Some banks now offer international remittances services to their customers, and many recent immigrants use these services to transfer funds safely to family members in other countries. Such remittances services would be considered under CRA as retail services. However, these remittances services also may qualify as CD services if they increase access to financial services for low- or moderate-income persons, for example, in connection with a low-cost bank account. An account, such as the low-cost Access Account offered by Citibank (see page 14), when combined with the bank’s international funds transfer capability, may increase access to financial services by low- or moderate-income persons.

Prepaid debit cards also may offer some potential for service test credit. For example, a commercial customer may employ large numbers of people who may not have bank accounts. The company can provide the persons’ wages via prepaid debit cards, which can be used to access funds from ATMs or for point-of-sale transactions (described on page 6). To the extent that such cards are free or low-cost and improve access to financial services for low- or moderate-income persons, they would qualify as CD services.

Technology continues to provide more ways to deliver financial services, and bankers continue to evaluate the risks and rewards associated with these new financial services to ensure that they comply with applicable rules and regulations consistent with the safe and sound operation of their banks. Banks interested in seeking positive consideration under the CRA service test should be prepared to demonstrate how their products qualify as CD services.
The financial services system has a crucial role to play in facilitating asset-building opportunities. It’s a fact that lower-income families with a deposit account are more likely to own other assets than those without an account. So the path from asset poverty to asset ownership may well be through traditional financial services providers — if the industry provides well-designed and suitably priced products, marketing, and outreach strategies.

In recent years the industry has developed new technology applications that have improved the structure and delivery of consumer financial products and services, creating new opportunities to serve unbanked, often lower-income households. New products and delivery mechanisms are being used to send money abroad, pay employees, cash checks, store funds, and make purchases online. Now the challenge is to link these transactional products with broader asset-building opportunities, thus providing consumers with a path to financial prosperity.

**Converging interests**

The Center for Financial Services Innovation (CFSI) was launched earlier this year to address this challenge. An initiative of ShoreBank Advisory Services (SAS) with support from the Ford Foundation, CFSI is designed to encourage efforts to serve unbanked and underbanked consumers.

CFSI provides funding for innovative solutions, a meeting place for interested parties, resources for testing products and services, and authoritative information on how to respond to the needs of the underbanked profitably and responsibly. We work with banks, credit unions, technology vendors, alternative service providers, consumer advocates and policymakers to forge new relationships, products, and strategies that will build assets and create value for both customers and companies.

Research tells us that the interests of the financial services industry and low-income consumers are converging. Five factors are helping to narrow the gap between supply and demand:

- technological advances that lower costs and expand consumer access;
- the federal government’s desire to pay benefits electronically;
- expansion of the alternative financial services sector;
- the emergence of the asset-building movement;
- and major demographic shifts.

Technology, for example, is a key factor in initiatives by several banks and credit unions to link the earned income tax credit (EITC), savings accounts, and direct deposit. The EITC has lifted more low-income families out of poverty than any other federal program: nearly 19 million families claim more than $30 billion in EITCs annually, and refunds run to as much as $4,000 per family.

Plastic assets: using stored value cards to build wealth

*by Katy Jacob and Jennifer Tescher, Center for Financial Services Innovation*
payroll checks deposited directly. The combination of electronic filing and direct deposit of refunds allows funds to arrive much more quickly than when tax forms are mailed and refund checks are issued, providing an added selling point in encouraging tax filers to open bank accounts. And having refunds directly deposited into accounts makes it easier for some customers to resist cashing and spending their refunds immediately, thus helping to facilitate longer-term saving and asset building.

Building on ShoreBank’s experience, institutions such as Bank One and H&R Block (in partnership with Bank of America), have been experimenting with stored value cards (SVCs) — prepaid debit cards — as a mechanism for receiving tax refunds.

The stored value card is an important innovation that uses technology to reach unbanked consumers. Like traditional debit cards, SVCs can be structured to allow consumers to draw down funds through purchases or cash withdrawals. SVCs can be PIN-based or signature-based and may be branded with Visa or MasterCard logos. Unlike traditional debit cards, SVCs are prepaid, and the PIN-based format in particular, helps limit the risk of overdrafts while providing nearly immediate liquidity for consumers.

**Rapid change**

SVCs are spreading rapidly, both in variety and uses, and growing numbers of unbanked and underbanked consumers are using them as alternatives to traditional bank accounts. Aware of the trend, many employers are reducing costs by moving from paper paychecks to electronic payroll cards. Celent Communications estimates that 10 percent of unbanked American workers were using payroll cards by the end of 2002, and that the proportion could rise to 25 percent by 2006.

Most SVCs currently available in the market do not provide a platform for saving, building assets, or developing a credit history. However, CFSI has identified some examples of SVCs that attempt to incorporate a credit-history-building feature by reporting accounts in good standing to credit bureaus. CFSI also has identified SVC programs that are attempting to incorporate other innovative functions, such as linking SVCs to savings accounts or Individual Development Accounts (IDAs); offering rewards or rebates; facilitating remittances; and providing overdraft protection and alternatives to payday loans. (For additional information about IDA programs, see the article “Individual Development Accounts: Savings Incentives to Build Wealth” in this edition of the on-line newsletter.)

“19 million families claim more than $30 billion in Earned Income Tax Credits annually, and refunds run to as much as $4,000 per family... ShoreBank offers EITC-eligible tax filers free savings accounts that can be opened by direct deposit of the expected refund.”

But while SVCs increasingly offer features that mimic bank accounts, some might lack important consumer protections, such as FDIC deposit insurance and Regulation E protection against unauthorized transfers, undisclosed fees, and other potential problems. We have found that SVCs distributed by banks and credit unions are more likely than other cards to have consumer protections, lower pricing, and more obvious transitions into other financial products and services. With enhanced functionality and regulation, SVCs could pave the way for people to have both convenient transactional services and links to broader financial opportunities.

At their best, SVCs exemplify an important paradigm shift in which function takes precedence over form. More financial services providers of all kinds are beginning to focus on the methods needed to deliver the right product functionality to low-income consumers, breaking free of the constraints of legacy systems and conventional wisdom in order to better meet customer needs.

In some cases, banks are recognizing that they may be better suited to a back-end role, such as processing payments and moving money, rather than the front-end job of marketing directly to low-income customers. In other cases, banks are learning from the business models of other financial services providers and adapting their techniques to reach out to underbanked consumers. The current environment of innovation and experimentation is exciting — and, through the work of CFSI, our partners, and financial services providers around the country, it has the potential to produce increased profits for financial services firms and increased asset-building opportunities for unbanked consumers.

For more information, please see the Center for Financial Service Innovation’s paper “Stored Value Cards: A Scan of Current Trends and Future Opportunities,” www.cfsinnovation.com; or contact them at (312) 881-5856; info@csfinnovation.com.
This just in. . .OCC’s Districts report on new opportunities for banks –

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**National Association of Seed and Venture Fund’s Capital Formation Research**

The Capital Formation Institute (CFI) is a new nonprofit organization dedicated to research in early-stage capital formation and enterprise creation. The CFI’s mission is to become the premier international research and educational entity in the fields of early stage capital financing and enterprise creation and growth. The organization will manage research projects, conduct surveys, sponsor conferences and seminars, and produce publications. A research advisory board has been created to set research priorities, review research proposals, and oversee research projects. It is composed of early-stage capital investors, researchers, and business creation experts. The first research project will be a survey of public and private early-stage capital funds.

CFI is affiliated with the National Association of Seed and Venture Funds (NASVF). NASVF is an organization of public, private, and nonprofit organizations committed to building their local economies by investing and facilitating investment in local entrepreneurs. NASVF maintains a listing of venture funds on its website at www.nasvf.org.

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**Baltimore Redevelopment Efforts Get $50 Million Boost**

Harbor Bankshares Corporation recently received a $50 million new markets tax credit allocation to enhance community development loan funds supporting revitalization and reinvestment in the city of Baltimore. The new investment funds will benefit both affordable housing development and small business financing, including a partnership with Fannie Mae to construct owner-occupied housing in targeted low-income communities and a commercial loan fund to help finance large scale mixed-use projects. Harbor Bankshares indicates that the flexibility of the tax credit program will allow it to expand its product mix to include loans with longer amortization periods, longer interest-only periods, and higher loan-to-value ratios. For more information, contact William Rice of Harbor Bankshares at (410) 675-5722.

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**Entrepreneurs Access Vital Funding in Lansing**

Did you know that micro-enterprises account for 15.8 percent of all employment in Michigan—an estimated total of 864,000 people? The Lansing Community Micro-Enterprise Fund (LCMF) offers a revolving loan fund to entrepreneurs that are unable to qualify for traditional bank loans. Loans range from $500 to $10,000, and 98 percent of the recipients have been minority-owned businesses. LCMF provides technical assistance, one-on-one, and also offers an entrepreneurship course. To qualify for a loan through the revolving loan fund, applicants must have completed a formal business plan, meet income eligibility guidelines, have a business that will benefit a low- or moderate-income neighborhood, and have no unsettled judgments or collections. LCMF also works closely with the local Small Business Administration (SBA) office to make SBA 504 loans and CommunityExpress loans. LCMF is seeking additional financial institutions to invest in its revolving loan fund, through below market rate, low interest rate loans, as well as lenders to refer entrepreneurs for SBA 504 loans. Contact: Denise Peek, (517) 485-4446, lancomme@tir.com.

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**Illinois Facilities Fund Capitalizing $100 Million Loan Program**

The Illinois Facilities Fund (IFF) is a nonprofit certified Community Development Financial Institution that provides loans, facilities planning, and development expertise to Illinois nonprofits for facility acquisition and improvements, new construction, and working capital and pre-development purposes. IFF’s borrowers are nonprofit organizations serving low-income communities and special needs groups throughout Illinois, such as child care centers, health care clinics, charter schools, homeless and transitional shelters, and affordable housing developers. Investors in the IFF loan program include ten banks, nine foundations, the state of Illinois, and a number of persons through the IFF’s Community Investor Fund. IFF now is raising $100 million of new capital over five years to continue its lending program. Structured as collateral trust notes with a 15-year term that will be issued semi-annually by IFF, proceeds from the notes will be used to purchase real estate and facilities-related loans made by IFF to nonprofit organizations in Illinois. Banks can be involved as investors in the IFF loan program, can be co-lenders with IFF, can refer prospective borrowers to IFF, and can provide grant funding to support IFF’s operations. Contact Trinita Logue at (312) 629-0060 or tlogue@iffund.org; http://www.iff.org.
Third Coast Community Development Corporation, Houston, Texas
This multi-bank community development corporation (CDC) was formed in 1998 by a coalition of five visionary banks. Collectively, they invested approximately $1 million to capitalize the organization. Over the last five years, six additional banks have become investors, bringing total capitalization to about $1.5 million. The corporation intends to stimulate economic development in Harris and surrounding counties by providing loans to small emerging businesses that may not currently qualify for conventional bank financing. Through its network of investor banks, the organization can access capital for loans up to $1 million. The current challenge is to increase the capital base to $5 million. The organization currently has reached 70 percent of its lending capacity and could reach 90 percent by year-end. They have no delinquencies on their outstanding loans. The credit committee is composed of experienced bankers, who have a flexible approach to credit requests. “We understand that every business transaction is unique,” says Steve Brown, President/CEO. “Our creative and flexible underwriting provides solutions.” Third Coast would like to double its capital over the next 12 months, and then double it again within the following twelve months. For more information contact: Stephen K. Brown, President, Third Coast CDC, (713) 503-5124; Email: thirdcoastcdc@aol.com

Georgia Affordable Housing Corporation
Georgia Affordable Housing Corporation (GAHC), a nonprofit organization, was formed in 1998 and is a Community Development Financial Institution (CDFI). GAHC is a lending source and a technical incubator for financing and promoting development of affordable housing units for low- and moderate-income households in Georgia. GAHC mainly concentrates its efforts on small- to medium-sized communities. GAHC has organized a loan consortium made up of financial institutions to provide permanent mortgages for new construction and to rehabilitate multifamily affordable housing units. Loan-to-value ratios associated with GAHC loans are generally lower because of the increased equity investment that results from the use of low-income housing tax credits, HOME funds, or other related affordable housing subsidies. Contact David Young at (404) 888-8237; www.georgiaaffordablehousing.org.

Mountain Plains Equity Group
The North Dakota Housing Finance Agency (NDHFA) has joined with the Montana Board of Housing and the Wyoming Community Development Authority to form the Mountain Plains Equity Group, Inc. (MPEG). MPEG intends to support the development of affordable multifamily housing in rural and urban communities throughout the tri-state area. MPEG is structured as a nonprofit corporation to make investments in low-income housing tax credit (LIHTC) projects and potentially historic tax credit projects. The LIHTC program allows owners of low-income housing to receive an annual federal tax credit for up to 10 years depending on the amount of capital invested in a project and the level of the project’s commitment to serving low-income tenants. Equity funds typically serve as an investment vehicle for banks and insurance companies who, by investing in affordable housing projects, are seeking to: (1) meet social responsibilities, (2) receive Community Reinvestment Act consideration, and (3) earn a return on their investment. Contact: Mountain Plains Equity Group, (406) 254-1677; http://www.mpequity.com/index.htm

Phoenix Community Development and Investment Corporation
The Phoenix Community Development and Investment Corporation (PCDIC) received a $170 million allocation of new markets tax credits during the first round of funding in 2002. The organization was formed by the city of Phoenix. PCDIC intends to develop and rehabilitate blighted areas of the city to stimulate economic development and jobs. PCDIC plans to use the funds in all of the city’s distressed urban areas. Development will be funded with below-market rate loans and equity investments, using a $133 million commercial real estate fund, a $30 million equity fund, and a $7 million small business fund. The permanent real estate fund emphasizes the development of commercial real estate projects, including retail developments, hotels, and office buildings located in low-income areas. The equity fund is targeted primarily at Phoenix’s burgeoning biotechnology sector. The small business fund will provide start-up and expansion loans for working capital and equipment purchase and will provide borrowers with 40 hours of free technical assistance. Contact Roberto Franco, assistant director of Phoenix’s Community and Economic Development Department, at roberto.franco@phoenix.gov.
Comptroller Hawke on Using Technology to Reach the Unbanked

The Unbanked: An Untapped Market

IDAs: Savings Incentives to Build Wealth

Coming Soon: Cellphone Wallets

Putting Payrolls on Plastic – and Reaching the Unbanked

Remittances Products: Banking without Borders

Using the Internet to Bring Mainstream Banking to Lower-Income Renters

ETAs: Reaching Unbanked Federal Benefit Recipients

Electronic Benefits Transfer through Stored Value Cards

Using Stored Value Cards to Build Wealth

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