

Case Studies

In addition to administering and reporting results from the *Survey of Banks' Efforts to Serve the Unbanked and Underbanked*, Dove Consulting also developed 16 **Case Studies**. The purpose of the case studies is to highlight a variety of successful strategies that banks have developed to bring unbanked and underbanked individuals into the conventional banking system. These case studies permit deeper analysis of the different business models used to serve these households and provide insight into the experiences of a range of commercial banking and savings institutions that offer innovative approaches to serving unbanked and underbanked individuals.

This chapter provides information about the process used to select case study banks, summary tables to highlight basic characteristics of the banks, and three- to five-page descriptions which detail each bank's situation, target population, innovative approaches, and lessons learned. Although case study banks employ a variety of approaches, they are categorized in this chapter by three primary strategies:

- Financial Education and Outreach
- Obstacles and Access
- Targeted Products and Services

These case studies are based on information gathered from survey responses, secondary research, and most importantly, in-depth interviews with bank managers to more fully understand how these banks have developed and implemented innovative and successful strategies to serve the unbanked and underbanked population.

Case Study Methodology

In order to capture a broad range of innovative and successful bank strategies for serving the unbanked and underbanked, Dove Consulting and the FDIC teams worked collaboratively to compile a list of prospective case study candidates. Candidates were required to pass both “good standing” criteria with compliance and provide a balance across geographic area and bank size.

Selection Process

A limited number of case studies were developed to provide information about specific strategies that some financial institutions have implemented to expand their customer base and serve underbanked consumers. Case study banks were selected on the basis of a variety of different types of information, including industry research and bank survey questionnaire responses. The final selection of banks reflects a variety of strategies to serve the unbanked as well as types of FDIC-insured institutions.

The banks chosen for case studies were selected in a two-stage process. The first set of potential case study banks were identified by the FDIC based on industry research prior to survey administration. These banks were reviewed against certain good standing criteria which included regulatory ratings of 1 or 2 for compliance, Community Reinvestment Act (CRA), and composite safety and soundness.

The second set of potential case study banks was identified by Dove Consulting based on Dove's confidential review of banks' survey responses. Banks that revealed innovative and successful strategies to converting unbanked and underbanked individuals into the conventional banking mainstream in their survey responses and that met the FDIC good standing criteria were added to the potential case study bank list.

Selection Criteria

Approval of proposed case study candidates was based on fulfillment of two criteria.

- **Good Standing Criteria:** Compliance screenings were conducted by the FDIC team. The FDIC evaluated case study candidates based on good standing criteria, including Compliance Rating, Composite CRA Rating, and Soundness Rating of either 1 or 2 as of Q1 2008.
- **Diversity of Example Criteria:** Candidates proposed for the case study during the pre-survey selection phase were screened on their innovative approaches and strategies applied to serving the unbanked and underbanked. In addition, candidates selected on the basis of survey responses were screened on the diversity of market served, geography, and size and type of institution. The following tables detail each diversity factor considered and the distribution of these factors across the 16 case study banks interviewed.

Invitation Process

Potential case study banks were invited to voluntarily participate by Dove Consulting. Dove contacted each potential bank by mail, seeking to obtain agreement to participate from a senior manager in each targeted organization. Banks that consented to be case study candidates were asked to complete the survey questionnaire and were interviewed at least once by Dove Consulting. Draft case studies were submitted to participating banks for their approval and consent.

Interview Process

Once a bank agreed to participate as a case study, Dove Consulting scheduled an interview with the bank's managers and subsequently conducted an interview. Dove Consulting conducted most interviews via telephone and conducted two in person. The interviews were based on the bank's survey responses and gathered relevant background information about the bank's strategy, including target population, initiatives, and lessons learned. Development of case study drafts followed a common template. After an internal review process, drafts were submitted to the participating banks for their approval and consent.

Distribution of Case Study Banks

Collectively, case study banks cover a variety of strategies for serving the unbanked and underbanked that reflect the unique needs of their markets. The table below highlights the variety of initiatives described in each case study.

CS. Figure 1. Strategy

| | Education and Outreach | | | | | Obstacles and Access | | | | | | Products and Services | | |
|------------------------------------|------------------------|----------------------------------|-------------------------------|--------------------|----------------------|----------------------|-----------------|------------|----------------|----------|----------------|-----------------------|-----------------|-------------------------|
| | Education Program | Non-Profit/Community Partnership | Government Agency Partnership | School Partnership | Employer Partnership | Branch Configuration | Bilingual Staff | Technology | Identification | Location | Extended Hours | Transaction Products | Credit Products | Asset-Building Products |
| Amalgamated Bank | X | X | | | | | | | | X | | X | | |
| Artisans Bank | X | X | X | | | | | | | | | X | X | X |
| Bancorp South | X | | | X | X | | | | | | | X | X | X |
| Bangor Savings Bank | | X | | | X | | | X | | | X | X | | X |
| Carver State Bank | X | X | | X | | | | | | | | X | X | X |
| Central Bank of Kansas City | X | X | | | | X | | | | | | X | | |
| Citibank | X | X | | | | | | | | | | X | | X |
| Citizens Union Bank of Shelbyville | X | X | X | | | X | X | | | X | X | X | X | X |
| The Commerce Bank of Washington | | X | | | | X | | | | | | | | |
| Fort Morgan State Bank | | | | | X | | X | | | X | X | X | | |
| International Bank of Commerce | X | | | X | | X | X | X | | X | X | X | X | |
| KeyBank | X | | | | X | | | X | | | | X | | X |
| Mitchell Bank | X | X | | X | | X | | | X | | | X | X | |
| Monroe Bank and Trust | X | | | | X | | | | | | | X | | |
| Ridgewood Savings Bank | X | X | X | X | | X | X | | | X | X | | | |
| Second Federal Savings of Chicago | X | | X | | | | X | | X | | X | X | X | |

Financial institutions selected for inclusion as case studies also demonstrate diversity in their target market, asset size, and institution type. By highlighting variations in institutional characteristics, the case studies demonstrate how different types of banks approach common challenges in serving the unbanked and underbanked.

CS. Figure 2. Institutional Characteristics

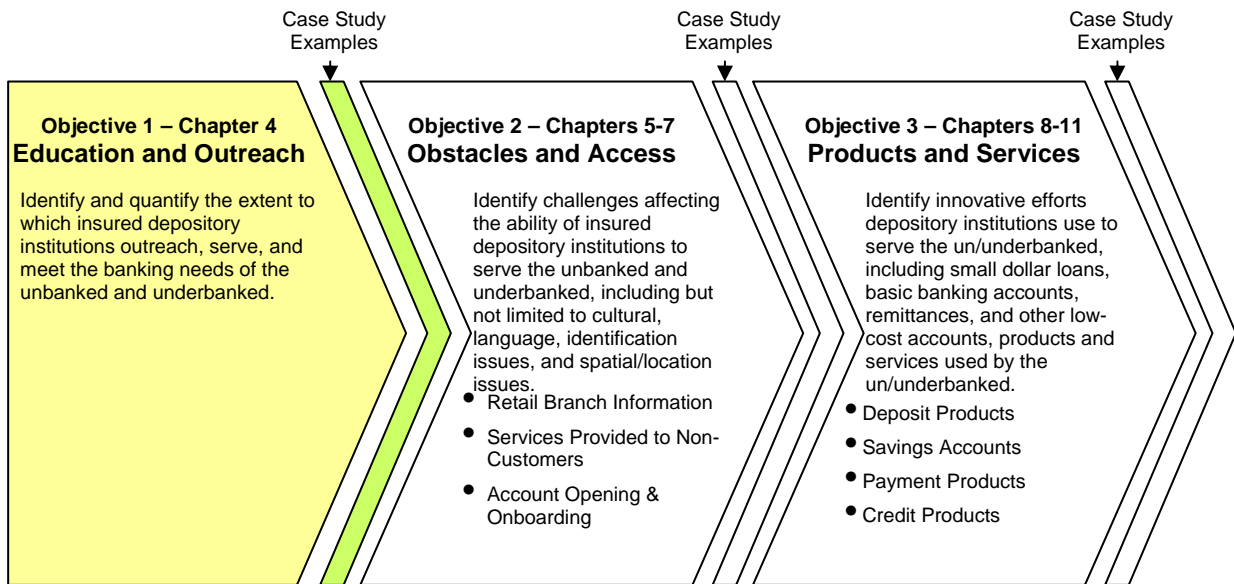
| | Target Market | | Asset Size | | | Institution Type | | |
|------------------------------------|------------------------|-------------------|------------|--------|--------|------------------|----------|-----------|
| | Immigrant/ Minority | Non- Immigrant | Tier 1 | Tier 2 | Tier 3 | National | Regional | Community |
| Amalgamated Bank | X | X | | X | | | X | |
| Artisans Bank | | X | | | X | | | X |
| Bancorp South | X | X | | X | | | X | |
| Bangor Savings Bank | | X | | X | | | | X |
| Carver State Bank | X | X | | | X | | | X |
| Central Bank of Kansas City | X | | | | X | | | X |
| Citibank | X | X | X | | | X | | |
| Citizens Union Bank of Shelbyville | X | X | | | X | | | X |
| The Commerce Bank of Washington | | X | | | X | | | X |
| Fort Morgan State Bank | X | X | | | X | | | X |
| International Bank of Commerce | X | | | X | | | X | |
| KeyBank | X | X | X | | | X | | |
| Mitchell Bank | X | | | | X | | | X |
| Monroe Bank and Trust | | X | | X | | | | X |
| Ridgewood Savings Bank | X | X | | X | | | | X |
| Second Federal Savings of Chicago | X | | | | X | | | X |

Case study candidates were also evaluated on geographical diversity to ensure representation from each regional division and to compile a complete perspective of banks' challenges and approaches in a variety of markets. The following table details the distribution of the 16 case study banks across the country.

CS. Figure 3. Geography

| | New England | Mid-Atlantic | South Atlantic | East South Central | West South Central | East North Central | West North Central | Mountain | Pacific |
|------------------------------------|-------------|--------------|----------------|--------------------|--------------------|--------------------|--------------------|----------|---------|
| Amalgamated Bank | | X | | | | | | | |
| Artisans Bank | | | X | | | | | | |
| Bancorp South | | | | X | | | | | |
| Bangor Savings Bank | X | | | | | | | | |
| Carver State Bank | | | X | | | | | | |
| Central Bank of Kansas City | | | | | | | X | | |
| Citibank | | X | | | | | | | |
| Citizens Union Bank of Shelbyville | | | | X | | | | | |
| The Commerce Bank of Washington | | | | | | | | | X |
| Fort Morgan State Bank | | | | | | | | X | |
| International Bank of Commerce | | | | | X | | | | |
| KeyBank | | | | | | X | | | X |
| Mitchell Bank | | | | | | X | | | |
| Monroe Bank and Trust | | | | | | X | | | |
| Ridgewood Savings Bank | | X | | | | | | | |
| Second Federal Savings of Chicago | | | | | | X | | | |

Banks' Efforts with Education and Outreach



Education and Outreach

The seven case studies featured in this section highlight a variety of effective approaches that leverage partnerships with third-party organizations, such as employers, schools, nonprofit organizations, and assistance agencies.

| Institution | Target Population | Initiative |
|--|--|---|
| Amalgamated Bank (New York, NY) | Union workers, primarily immigrant and low income | Created educational curriculum specific to needs of target market; partners with union and local government agencies to deliver outreach and products |
| Citibank, NA (New York, NY) | Low-income, urban individuals in their area | Leverages United Way case management and outreach expertise in area to market, educate, and open entry-level accounts for clients |
| The Commerce Bank of Washington (Seattle, WA) | Homeless population, mentally ill individuals | Automated check cashing processes and improved access to banking services for “unbankable” individuals by providing back-office systems and support to The Compass Center, a nonprofit assistance agency |
| Fort Morgan State Bank (Fort Morgan, CO) | Employees of food processing company in Colorado | Established branch at plant facility, introduced services during new employee orientation, and opened accounts to encourage direct deposit of paychecks |
| International Bank of Commerce (Laredo, TX) | Elementary school students in predominantly Mexican immigrant communities in their areas | Partners with elementary schools to create student-run “micro-communities,” simulated societies in which students earn wages in mock currency, conduct banking transactions, and learn to manage finances |
| Mitchell Bank (Milwaukee, WI) | High school students in large Mexican and Central American immigrant communities in their areas | Partners with a local high school to establish full-service branch on campus to open accounts for students, provide financial literacy education, and build trust and awareness in wider community |
| Monroe Bank and Trust (Monroe, MI) | Low- to moderate-income individuals in the bank’s county, many of whom are affected by rising unemployment | Established education program, an off-shoot of its existing volunteer organization, to provide educational outreach in its markets by bringing seminars and programs to faith-based organizations, service agencies, and high schools |

Common Lessons Learned

- Financial education is the primary vehicle for serving the unbanked and underbanked populations and is essential to helping them make informed decisions.
- Employers and community organizations can provide important insights to banks seeking to assess and understand the needs of the unbanked market.
- Partnerships with third-party organizations that leverage core competencies can supplement and complement bank initiatives to provide outreach and serve the community.
- Building strong relationships with trusted community organizations presents valuable opportunities for banks to establish their presence and increase awareness in their service areas, which are particularly important when working with unbanked populations.
- Developing and executing a successful strategy requires innovative approaches that involve stakeholders both within and outside of the bank.

A m a l g a m a t e d B a n k

Amalgamated Bank relies on strategic partnerships with community organizations and government agencies to tailor and deliver educational outreach and banking services to different unbanked populations in its service areas. In addition to creating a comprehensive financial literacy curriculum, the bank also developed a specialized package of banking services for its union members, other working class individuals, and recent immigrants. The bank continues to evolve its offerings and approaches according to the needs of each community.

“From our perspective, serving the unbanked segment is a challenge that we take seriously, and we are still testing and refining different approaches. Nevertheless, financial education is a strong component of the overall value we strive to deliver.”

*Keith Pilkington, EVP and Chief Marketing Officer
Peter Mosbacher, CRA Officer, Head of Community Development and SVP*

I. Target Population

As the nation’s only union-owned bank, Amalgamated Bank tailors and targets its products and services to members of UNITE HERE (formed from the merger of the Union of Needletrades, Industrial and Textile Employees and Hotel Employees and Restaurant Employees International Union), other working class individuals, and recent immigrants. UNITE HERE represents more than 450,000 active members and more than 400,000 retirees throughout North America. Its membership is composed largely of immigrant workers and includes a high proportion of African Americans, Hispanic Americans, and Asian Americans.

The bank primarily serves working class residents and small businesses in New York City, and many low- and moderate-income families. Since early 2007, Amalgamated Bank has operated four branches in neighborhoods identified as Banking Development Districts (BDD) by the New York State Banking Department. These communities are typically underserved by the banking industry and dominated by alternative service providers, such as check cashers. The bank has also begun expanding outside of New York City to reach union members outside of its primary branch footprint. As of September 2008, the bank operates three supermarket-based branches in Las Vegas to serve the large population of culinary union members in that market area, as well as one branch in each of the following markets: Pasadena, CA; Lyndhurst, NJ; and Washington, D.C.

II. Initiatives

Amalgamated Bank sees financial education as an integral part of its approach to serving unbanked individuals. Education provides consumers with the necessary tools to understand how the banking system works, and to manage accounts responsibly and comprehensively. In addition, it also helps the bank ensure that it opens accounts for customers who have the requisite knowledge to handle banking products and reduce the risk of loss due to mismanagement.

Money Sense

In the summer of 2006, the bank introduced **Money Sense**, an in-house branded financial education program developed in partnership with LaGuardia Community College. The college not only contributed to the creation of the **Money Sense** curriculum but also trains bank employees to conduct sessions and effectively deliver information. Presented in four modules lasting 90 minutes each, the **Money Sense** curriculum covers basic banking, credit, savings, and home ownership. Upon successful completion of the program, the bank offers a small cash bonus toward a new no-fee, no minimum balance checking account. While potential customers must still undergo the normal account approval and opening process, the bank believes that the bonus provides additional incentive for opening an account at Amalgamated Bank.

The bank typically offers the program in four concurrent sessions on Saturday from 9:30 a.m. to 3:30 p.m. and provides free lunches as an additional accommodation. Branches also have the option of offering morning or evening sessions, depending on what branch personnel deem to be most feasible and useful. All branches conduct **Money Sense** financial education, with an average of two to three programs offered by each branch annually.

To optimize the impact and effectiveness of **Money Sense**, Amalgamated Bank advises its branch employees to conduct education sessions only after establishing strong partnerships with third-party community organizations. These partnerships can involve faith-based organizations, local development corporations, and other nonprofit organizations. The bank often holds its education sessions at the organization's site to encourage participation in the program. Community partners also help by sending marketing materials to its client base to raise awareness of upcoming **Money Sense** seminars and other bank-related events. By leveraging community partnerships, the bank has been able to attract between 30 and 50 individuals to each session.

For residents in the bank's Las Vegas service area, educational sessions have been particularly valuable. Led by a full-time community development officer, Amalgamated Bank launched a Home Ownership and Empowerment Center in 2007 to assist the approximately 60,000 union members and working class customers residing in the Las Vegas area. Financial education programs offer the four **Money Sense** modules in addition to a session focused specifically on foreclosure prevention. Clark County, in which Las Vegas is located, has faced some of the highest home foreclosure rates in the country, deeply affecting union members and low-income families. In response to these major issues and the immense need for education on foreclosures, the seminars provide individuals with an overview of the situation, help them determine what stage of the process they are in—delinquency, verge of delinquency, or beginning of foreclosure proceedings—and inform them of available options for their situation. The bank also invites local credit counseling and housing agencies to provide additional insight during the seminars. Given the impact of home foreclosures in the Las Vegas area, the sessions have been well-attended by local residents seeking assistance and information. In the past year, Amalgamated Bank has conducted eight foreclosure seminars, attracting 50 to 75 attendees to each session.

Local Partnerships

The bank partners with a wide range of local community agencies and organizations to provide additional financial education opportunities to unbanked populations.

In collaboration with the East River Development Alliance (ERDA), Amalgamated Bank has augmented the alliance's existing Wealth Building Academy with financial education programs that help unbanked individuals feel comfortable and welcome in bank branches. The objective is to mitigate fears or misperceptions about banks as a first step to ease the unbanked into the financial mainstream. Through this partnership, the bank also promotes the academy's education program to low-income residents in public housing projects and delivers **Money Sense** seminars through the auspices of ERDA.

The bank currently participates in two pilot programs offered through the New York City Department of Consumer Affairs' Office of Financial Empowerment (OFE). In spring 2007, the bank joined the **Opportunity NYC** program, the nation's first conditional cash transfer program, in an effort to encourage account opening and enable individuals and families on public assistance to receive and safely access payments through direct deposit.⁸ Amalgamated Bank and seven other local banks and credit unions offer **Opportunity NYC** savings accounts, an entry-level account with no minimum opening balance, no monthly service fees, and a \$50 bonus upon opening. In another joint effort with the OFE, Amalgamated Bank offers the **Save NYC Club Account** for residents receiving Earned Income Tax Credit (EITC). This interest-bearing account offers a 0.5 percent rate and a city-funded 50 percent match of initial deposits up to \$250 to help low- to moderate-income families build savings. To qualify for the account and for the match, customers must save at least \$100 for up to one year. When the pilot program first began in the 2008 tax season, Amalgamated Bank succeeded in opening 20 **Save NYC Club Accounts**. Based on this initial success, the bank plans to expand the program during the 2009 tax season.

In October 2008, Amalgamated Bank will launch a pilot program for rent payments in partnership with the New York City Housing Authority. Unbanked residents often pay their rent by cashing checks at alternative service providers and incurring high fees to purchase money orders and make payments. To reduce service fees and make the process more affordable for residents, Amalgamated Bank and two other New York City-based financial institutions signed an agreement with New York City Housing Authority to accept rent payments in cash for a smaller fee at branch locations, process the payments for remote capture, and transfer the payments to New York City Housing Authority. To facilitate the process, New York City Housing Authority has provided the bank with two scanners. The bank will introduce the pilot program at its Long Island City BDD branch, and if successful, the bank will expand the program to additional branches in 2009.

⁸ Conditional cash transfer (CCT) programs are designed to alleviate poverty in the short-term by providing additional income to poor families, and to break the intergenerational cycle of poverty in the long-term by promoting greater investments in human capital.

Union Outreach and Group Advantage Banking

In an effort to serve its core customer base, Amalgamated Bank provides specific banking services that address the needs of union members. During outreach sessions, the bank combines education with financial incentives for establishing customer relationships. Amalgamated Bank tailors education classes to its audience of union members in a particular industry and delivers seminars at the workplace to improve convenience and accessibility. In addition, outreach visits serve as an opportunity to inform them about the Group Advantage Banking, a package of services specially priced and specifically packaged for union members with direct deposit. Group Advantage Banking offers benefits not available to the general public, including a free checking account with a \$50 bonus for direct deposit, free savings account with a \$25 bonus for establishing automatic savings deductions from an Amalgamated checking account, unlimited check writing, free first order of 50 checks, higher relationship rates on qualified savings accounts, and preferred rates on loan products.

In its Las Vegas market area, Amalgamated Bank plans to launch a payroll card product in October 2008. As hotels, casinos, and other major employers begin moving toward mandatory direct deposit of paychecks, UNITE HERE has expressed strong interest in the bank offering a payroll card product because it will provide workers with an alternative to deposit accounts while meeting direct deposit requirements. The bank developed the product in close communication with the union, informing union leadership of associated fees and pricing structure and providing them with opportunities to review and provide input for refining the product. In an effort to provide competitive and favorable pricing for union members, the bank also deployed an ATM at the UNITE HERE headquarters, where payroll card customers pay a reduced surcharge of 50 percent below market rates to withdraw funds. This enables workers to avoid using alternative service providers to cash paychecks without having to manage conventional deposit accounts. The product will serve as an entry point for transitioning unbanked union members into deposit account customers and the economic mainstream.

III. Lessons Learned

- **Banks cannot effectively reach out to unbanked individuals without the support of a strategic nonprofit or government partner.** Identifying, addressing, and serving this segment poses a daunting task for banks that choose to work independently. Community partnerships can provide critical assistance by helping banks navigate this complex and dynamic population.
- **Strong community partners are well-respected, fiscally sound, and have a solid reputation in the community.** They must also recognize and understand the bank's business needs and obligations. Community partnerships exhibiting these characteristics and founded on mutual understanding provide a strong platform for developing and delivering joint efforts to serve the unbanked and underbanked.
- **Providing education to unbanked individuals provides mutual benefit for consumers and institutions.** Financial literacy training and banking education equip unbanked individuals with the knowledge to responsibly and comprehensively manage accounts and make informed financial decisions. Banks benefit from improved financial management practices, as it reduces risk and increases the number of customers and deposits.

About Amalgamated Bank

Amalgamated Bank, headquartered in New York, New York, was established in 1923. Originally chartered by the Amalgamated Clothing Workers of America Union (ACWA), the bank's mission was to provide affordable banking services to working men and women. In 1995, the Amalgamated Clothing & Textile Workers Union and the International Ladies Garment Workers Union merged in order to form the Union of Needletrades, Industrial and Textile Employees (UNITE!). In 2004, UNITE! and the Hotel Employees and Restaurant Employees International Union (HERE) merged. The Bank is now owned by UNITE HERE.

Currently, Amalgamated Bank operates out of 19 branches in New York, NY. The bank also maintains one branch in Lyndhurst, NJ; one branch in Pasadena, CA; one branch in Washington, D.C.; and three supermarket branches in Las Vegas, NV. The bank offers a variety of consumer and commercial credit and deposit products, as well as financial services. Available credit products include home equity loans, auto loans, personal loans and lines of credit, commercial mortgages, commercial loans and lines, as well as standby letters of credit. Examples of deposit account offerings include regular savings accounts, club accounts, checking accounts, money market accounts, CDs, and IRAs. Other provided services include direct deposit and safety deposit box rental, as well as the sale of travelers and gift checks, money orders, and United States Savings Bonds. The bank faces intense competition in its service areas from many large money-center institutions, national and regional banks, savings and loan associations, and mortgage brokers.

Assets, \$Th, as of September 30, 2008: \$4,573,953

Citibank, NA

Citibank's citizenship work in the United States focuses broadly on community revitalization and preservation, asset building, and financial education, particularly for unbanked and underbanked, and low- to moderate-income (LMI) individuals. To achieve these objectives, Citibank relies on partnerships with many local nonprofit and community organizations to deliver specialized services, education, and bank products to the people in these groups. Citibank also invests in market research to increase the banking industry's understanding and awareness of unbanked and LMI populations and to inform and refine its strategies for serving these segments of the population.

*"Products and services do not make a difference if they're not culturally relevant to the community you are serving."
– Victor Ramirez, Citi Community Relations*

I. Target Population

Citibank's efforts through the Saving for the American Dream program focus on low-income, EITC-eligible residents of the Greater Los Angeles area, many of whom are unbanked. IDA participants can be EITC-eligible or earn less than 200 percent of the Federal Poverty guidelines, delineated by the Department of Health and Human Services (DHHS). In Los Angeles, that translates to approximately 60 percent to 80 percent of the area median income. Citibank makes appropriate products available to people in this group and works to facilitate their access to these products. For example, Citibank opens accounts at VITA sites, including community and neighborhood centers, libraries, schools, shopping malls, and other convenient locations. (VITA is the IRS's Volunteer Income Tax Assistance Program for low-income, elderly, disabled, and limited English-speaking individuals.)

As of August 30, 2008, Citibank had 463 IDA accounts in the Greater Los Angeles area that had been opened through the Saving for the American Dream program, as well as 77 Ramp Up Accounts. Citibank also offers the IDA program in other markets across the country. Nationally in 2007, Citibank maintained over 50 separate IDA programs with about 4,000 IDA accounts active in its branches, exceeding \$3 million.

II. Initiatives

One of Citibank's primary partnerships in Los Angeles is with the United Way of Greater Los Angeles (UWGLA) in its Saving for the American Dream asset-building program. Saving for the American Dream promotes the Individual Development Account (IDA) to low-income working families that include unbanked recipients of the Earned Income Tax Credit (EITC), the refundable federal income tax credit for low-income working individuals and families. The IDA is a savings account, incentivized with matching funds provided by a variety of government and private sector sources, for "working poor" families who are building toward a specific asset goal, such as a home.

IDA account holders also are offered financial education through the Saving for the American Dream program. This helps them understand the benefits of a mainstream savings account and teaches skills for responsible money management.

Initial Efforts

Citibank committed to participating in and raising awareness about the EITC and VITA programs in Los Angeles. Citi employees participate through VITA volunteer tax assistance and encourage EITC recipients to engage in mainstream banking by opening free checking accounts and direct-depositing their tax refunds.

Initially, the bank's strategy was to make its branch employees available to open accounts at VITA sites and to offer a \$20 to \$25 incentive for new deposit customers. However, Citibank employees faced difficulties in attracting interest and describe being hampered by the identification and due diligence process required for account opening. In 2005, Citibank's first year working with EITC/VITA in Los Angeles, the bank opened only ten accounts. Further, these new customers withdrew all funds from their accounts soon after opening, resulting in account closure due to lack of use and insufficient deposit balance.

Consequently, Citibank developed an approach that would more effectively promote the saving of EITC funds and the development of long-term banking relationships with recipients. This approach would be based on partnerships with established, local nonprofit organizations.

Community Partnerships

Citibank tapped into the resources of its primary partner in Los Angeles, the UWGLA, and their asset-building partnership collaborative. This partnership allows for a division of tasks that capitalizes on each partner's respective strengths. UWGLA's partners have substantial experience in case management and outreach work and, once trained about banking products, can comfortably present information and provide guidance to clients. For its part, Citibank takes responsibility for program management and provides educational materials and training to UWGLA staff and partners.

Additionally, UWGLA—as a well-established and reputable community organization—can independently raise matching funds for IDAs.

The benefits of Citibank's partnership with UWGLA, and with third-party community organizations in general, go beyond process efficiency. The diverse demographics of Los Angeles County allowed the Los Angeles EITC Campaign Partnership to expand outreach to various ethnic communities through their partners, including the Chinese, Hispanic, Filipino, Armenian, and Korean communities. The local partner can help Citibank mitigate language and cultural barriers. Its staff can translate banking information and can build trust with immigrant clients. This helps Citibank establish a strong local community connection and deliver services and programs tailored to the needs and preferences of the local market segments.

Citibank's IDA-based asset-building initiative in the Greater Los Angeles area, which began in the 1990s, is county-wide. The large-scale program is delivered through 19 local nonprofit organizations, with UWGLA serving as the lead coordinating agency of the program. UWGLA provides the participating nonprofits with training, capacity building, data collection, and account management for the program. Citibank offers financial support in the form of grants from Citi and the Citi Foundation, technical assistance, and overall program management.

Challenges of the IDA Program

In the past five years, Citibank identified new challenges facing program participants and the bank. For instance, participants in this federally funded IDA program were permitted to use accrued funds only toward the purchase of new homes, small businesses, and/or post-secondary education. While many participants initially planned to use the IDA to fund a home purchase, currently there are few affordable housing options in the Los Angeles area. After years of making regular deposits and participating in financial education courses, participants finally reached their savings goals only to find that the “qualified asset” they had in mind—a home—was unavailable to them due to a lack of affordable housing on the one hand and insufficient capital or credit on the other. Beyond the immediate setback this situation created, the concern to Citibank was that the clients’ discouragement would negatively affect their relationship with and perception of financial institutions in the future.

Saving for the American Dream also incurred high administrative costs. Citibank reports that the annual costs for case management, tracking and recording of participants’ savings, and conducting education classes average \$1,400 per account.

To mitigate participants’ frustration and the program’s high overhead, Citibank helped developed a new kind of account, the Ramp Up Accelerated Savings Account.

Ramp Up Accelerated Savings Accounts

Ramp Up Accelerated Savings Accounts were introduced in the Greater Los Angeles area for the first time in May 2007. The savings account offers both a subsidized annual interest rate of up to 21 percent on initial deposits and monthly contributions to the Ramp Up accounts as incentives for LMI individuals to save money. The Ramp Up account has a 15-month period, at the conclusion of which the account holders are encouraged to transfer their savings into an investment account, typically an IDA. Ramp Up accounts, as compared with the IDA, permit a greater range of asset types to be acquired from the accrued funds. In addition, the Ramp Up program, with average overhead of \$300 per account, is more cost-effective than the IDA program.

Case managers and tax preparers working under the auspices of Citibank’s nonprofit community partners promote Ramp Up Accounts to unbanked, EITC-eligible individuals at VITA sites. These workers can open accounts through Citi’s business banking online system using the CitiEscrow product. The direct deposit account information is then immediately entered on the participant’s tax forms so that, as a result of this streamlining and integration, the tax refunds can be sent directly to the new account.

Ramp Up Accounts are a kind of “trustee account,” to be implemented in a nonprofit setting. The case managers serve as agents of Citibank and collect all identification and other necessary documentation (including representative payee forms and W9s), so the identification and verification process for account opening is streamlined and expedited. In addition, since the product is not a checking account, ChexSystems (a check verification service and consumer credit reporting agency for deposit accounts) is not consulted and any negative history on the ChexSystems database is not an impediment, as it was in earlier initiatives to open free checking accounts for unbanked individuals.

Through the 2007 and 2008 tax seasons, Citibank opened a total of 77 Ramp Up accounts in the Los Angeles area. As of August 2008, the bank has 57 active Ramp Up Accounts in Greater Los Angeles amounting to \$64,350 in cumulative deposits. Since introducing Ramp Up Accounts, Citibank has observed that participating account holders save more consistently and are less likely to withdraw all of their money after receiving their tax refunds. During the summer of 2007, the bank opened 42 accounts, with an average of \$600 saved per account after the first 180 days and with 80 percent of participants making regular monthly deposits. Because most Ramp Up participants are co-enrolled in an IDA program, they also receive that program's financial literacy training.

Citibank plans to survey Ramp Up account holders as well as IDA account holders to determine asset-building and purchasing trends under the program. Anecdotally, bank employees and community organization staff observe that many EITC recipients spend their refund, which averages \$4,000 to \$5,000, on basic necessities such as food, clothing, and medical expenses.

Market Research

Citibank invests in market research to assess and refine its strategies for serving the unbanked and underbanked. For instance, the bank supported the Center for Financial Services Innovation's (CFSI) Underbanked Consumer Study, which was the first comprehensive national segmentation study of the underbanked market. With a cohort of 2,800 unbanked and underbanked adults, the study revealed detailed behavior profiles that outline market size, current use of financial products and services, interest in financial products, preferred marketing and communication approaches, and desired financial experience.

Citibank also supported the development of a research tool that goes beyond Census data to develop a picture of a community's economic activity. This was accomplished through the services and tools developed by Social Compact, a nonprofit organization. The tool measures economic opportunity and investment incentive by looking at data from supermarkets and utility bills. This study helps identify effective approaches to bringing unbanked individuals into the economic mainstream.

Future Initiatives

Following their successful efforts on behalf of the unbanked and underbanked in the Los Angeles area, Citibank and UWGLA are exploring other markets in which to establish similar programs.

Citibank also has begun working with other financial institutions nationwide, to share insights and best practices related to serving the unbanked and underbanked.

III. Lessons Learned

- **Banks can rely on partners to deliver connections to the community by virtue of their local experience, subject matter expertise, staff resources, and fundraising capability.** Leveraging strategic long-term partnerships with strong community organizations has been integral to the success of Citibank's asset-building initiatives.
- **Honing the knowledge of regional and local markets guides the development and implementation of products and services that meet the needs of each market area.** Offerings are only valuable if they address the specific needs of a target population.
- **Flexibility and a willingness to innovate help overcome the obstacles to serve traditionally unbanked communities.** Tailoring products and services to lower-income communities ensures that their unique needs and preferences will be met. Identifying and addressing these nuances play an important role in a bank's success in serving people in this population segment.

About Citibank, NA

Found in more than 100 countries, Citibank delivers a wide array of banking, lending and investment services to individual consumers, as well as to small businesses with up to \$10 million in annual sales. Citibank also offers a full range of financial services products to serve the needs of small and large corporations, governments, and institutional and individual investors. The Financial Center Network is composed of local offices and complemented by electronic delivery systems, including ATMs and the Internet.

Specific products and services include basic banking accounts, investment services through Citicorp Investment Services, life insurance, telephone banking, and accounts which integrate banking, borrowing, and investing services. Client Financial Analysts are available in branches and trained to use Citibank's financial needs analysis tools that enable bank staff to recommend tailored solutions for every customer.

Assets, \$Th, as of September 30, 2008: \$1,207,007,000

The Commerce Bank of Washington

The Commerce Bank of Washington transformed and modernized banking services offered by The Compass Center (TCC), a nonprofit homeless service provider. The Commerce Bank of Washington provides funding, technical assistance, and banking processing services for TCC for homeless clientele and individuals with permanent disabilities in Seattle. Clients also benefit from financial education and counseling resources, which can also help them move into the economic mainstream.

“We thought outside-the-box and got everyone involved—from service providers to non-profit organizations to regulators.” – Ron Lynch, Chief Operating Officer

I. Target Population

The Compass Center (TCC) is a multi-service agency that assists homeless individuals in Seattle, with an estimated population of 8,000 individuals. Most TCC clients earn less than 30 percent of the service area’s median income and need assistance in seeking or maintaining housing, as they do not have a physical address or location to receive a check. In addition, some of TCC’s clients have been deemed by the state as mentally ill or incapable of handling their own finances, however, they can benefit from deposit accounts to receive government benefits. Because homeless individuals primarily operate in a cash economy, TCC recognized that they were a financially vulnerable population within a predatory environment. While most nonprofit organizations provide representative-payee services, homeless clients, who are not only unbanked but often deemed “unbankable,” use check cashing agencies that charge high fees for their services. TCC addresses one of their critical financial needs by providing assistance in cashing disability, Social Security, veterans’ benefits, and other assistance payment checks for clients without bank accounts.

II. Initiatives

The Commerce Bank of Washington began working with TCC in 1999 when a number of bank employees expressed interest in volunteerism and organized a community service effort to repaint and clean the TCC’s facility. During their visit, bank employees noticed that TCC provides “quasi-banking services” to Seattle’s homeless community. These services were arranged by case managers and social workers in response to clients’ needs. At the time, the U.S. Treasury Department announced that recipients of federal government benefit checks would be paid electronically unless they could submit documentation that explained why payments could not be received through electronic methods. This presented challenges to homeless and other disadvantaged individuals who did not qualify for bank accounts or did not feel comfortable with this payment method.

Recognizing the community’s need and TCC’s concerns about this federal mandate, The Commerce Bank of Washington worked with local organizations and the Federal Reserve Board to develop a solution. They devised an approach that would allow The Commerce Bank of Washington to act as a conduit for TCC’s financial services. In establishing TCC Bank, The Commerce Bank of Washington would enable it to receive electronic payments from the government on behalf of homeless individuals and allow them to maintain accounts for their funds. TCC would have access to the banking system and platform, the Federal Reserve, and knowledgeable personnel without having to handle overhead costs and regulatory issues.

The bank helped TCC set up their systems to allow customers to receive ACH⁹ payments through a second ABA Routing Transit Number¹⁰ for The Commerce Bank of Washington and assigned specifically to TCC, which would allow transactions to route through that number and post to individual accounts in the institution. The bank also gave TCC access to the necessary hardware platform and core banking software to enable it to efficiently manage accounts and provide banking services. By partitioning part of its mainframe, creating a separate cable and firewalled data network within the bank's existing infrastructure, TCC could utilize The Commerce Bank of Washington's core demand deposit account (DDA)¹¹ banking system. With support from a second bank, The Commerce Bank of Washington equipped TCC with an automated cash dispensing unit purchased at wholesale from the manufacturer and maintained by services donated by an armored car company. Bank employees trained TCC staff to properly verify customers and checks, operate the machine, and open individual accounts for clients.

While The Commerce Bank of Washington provides back-office systems and support, TCC staff and case workers perform the front-office functions, such as opening accounts, verifying identification, and cashing checks. New TCC clients must provide a form of identification when seeking banking services for the first time, and a photograph of the individual is placed in a book linking the individual to their account. Accounts offered to TCC clients are similar to passbook savings accounts in that clients can verify their balance and withdraw cash but are prohibited from writing checks. As part of its assistance services, TCC staff help clients determine account restrictions, which typically allow one withdrawal per day for a predetermined amount. Since most clients receive recurring government and benefit payments on a monthly basis, building parameters enables clients to spend their money incrementally and prevent impulsive withdrawals, with sufficient funds to subsist before receiving their next payment. While clients with extenuating circumstances, such as mental illness-related issues, emergencies, and other case management-related exceptions, are afforded flexibility at the discretion of TCC's personnel, those who no longer wish to abide by these conditions can dissolve their account relationship with TCC at any time. To date, TCC has opened 1,600 accounts for its clients.

Clients who do not have accounts either have experienced account closure, typically due to inability to maintain their account balance, or solely prefer to use check cashing services. Decisions on the types of checks accepted for check cashing services are made at the discretion of TCC staff. In general, government and payroll checks are commonly accepted and cashed for a fee of 2 percent for checks over \$300. Although the bank acknowledges the inherent risks involved in check cashing operations, the bank cites that losses incurred from providing these services have been fewer than expected.

From the bank's perspective, partnering with TCC provided mutual benefits. TCC staff have deep understanding and knowledge of its client base and a strong foundation in case management, which creates a strong position from which TCC and the bank can jointly outreach and assist homeless

⁹ The Automated Clearing House (ACH) Network is a nationwide batch-oriented electronic funds transfer system. ACH payments include: direct deposit of payroll, Social Security and other government benefits, and tax refunds; direct payment of consumer bills such as mortgages, loans, utility bills and insurance premiums; business-to-business payments; e-checks; e-commerce payments; and federal, state and local tax payments.

¹⁰ The ABA Routing Transit Number (ABA/RTN) serves to identify the specific financial institution responsible for the payment of a negotiable instrument. Originally designed to identify only check processing endpoints, the ABA Routing Number has evolved to designate participants in automated clearinghouses, electronic funds transfer, and online banking.

¹¹ An account from which a depositor may withdraw funds immediately without prior notice, commonly known as a checking account

individuals. Employees note that new clients often hear about TCC by word-of-mouth, which also reflects its impact on the community. On the other hand, The Commerce Bank of Washington's capabilities as a financial institution provide valuable services to TCC's clients, in addition to credibility and reputation for this community organization. The bank also cites its culture of community involvement and investment as important drivers for this initiative. The Commerce Bank of Washington and its employees dedicate time and effort to provide staff support, IT support, accounting and reporting, bank processing, data processing, and mainframe updates for TCC. In 2006, this amounted to \$18,000 of hard cost to The Commerce Bank of Washington. Other service providers have also contributed to TCC, including donations from vendors of teller software, courier services, and armored car services.

The bank believes that its work with TCC has been successful from both a social assistance and a community reinvestment perspective and continues to seek new and innovative ways to serve its local community. Currently, the bank is exploring the possibility of establishing a similar relationship with The Chief Seattle Club, which provides assistance for homeless and at-risk Native American individuals, and extending its work with TCC to serving the needs of this population.

III. Lessons Learned

- **The bank's partnership with TCC leveraged core competencies of each organization to create a more valuable approach to serving the unbanked community.** Using the bank's unutilized capacity core banking system and available software enabled the automation of TCC's manual check cashing process, improving access and efficiency for unbankable individuals. Concurrently, TCC's case workers support account opening and the identification and verification process, facilitating compliance with Know Your Customer regulations.
- **Banks can address common needs for banking services among homeless populations in every major city and market.** The Commerce Bank of Washington met with a group of CRA officers, all of whom identified similar problems facing homeless individuals, who are often unable to open bank accounts and have no means for safe-keeping the funds they receive from benefit payments. Providing services for these individuals has a significant impact in serving the unbanked.
- **Developing and executing a successful strategy requires innovative approaches involving stakeholders both within and outside of the bank.** Support from other nonprofit organizations and businesses enabled The Commerce Bank of Washington to equip TCC with a broad range of capabilities, which helped to improve the agency's effectiveness and efficiency. Collaborating with regulators, such as the Federal Reserve Board, not only provided valuable insight but also credibility when exploring approaches that diverge from conventional methods of outreach and assistance to the unbanked and underbanked.

About The Commerce Bank of Washington

The Commerce Bank is the Washington banking subsidiary of Zion's Bancorporation. The bank is a \$900 million institution, operating out of a single office in downtown Seattle. Its single office organization is enhanced by a courier service which in effect gives it a "messenger service branch" wherever its customers have local offices, or needs. This concept was approved by the Office of the Comptroller of the Currency (OCC) in 1993. Since its opening on July 1, 1988, The Commerce Bank has maintained a primary market focus on locally owned businesses and their principals, in the greater Seattle, Bellevue, Mercer Island, and Kirkland metropolitan areas (and to a lesser extent the rest of King County). Primarily a commercial bank, relationship managers handle all sizes of businesses, bringing their experience and skills to bear on the business with less than \$1 million in revenues as well as to one with \$50 million. The bank's relationship managers are senior professionals with an average of 25+ years experience in commercial lending.

Assets, \$Th, as of September 30, 2008: \$846,491

Fort Morgan State Bank

Fort Morgan State Bank opened a branch at the Cargill Meat Solutions facility to provide banking services and education to its 2,000 employees, many of whom are unbanked and/or new immigrants. The bank tailors its workplace branch operations to specific needs and behaviors of the employees and provides a package of targeted products and services to serve this population and to compete with alternative service providers.

“While we expected that challenges would arise, our approach to serving the unbanked was to remain flexible, accommodate the process, and learn.” - John Sneed, President and CEO

I. Target Population

For its workplace branch, Fort Morgan State Bank targets Cargill employees, many of whom are new immigrants lacking financial literacy and banking relationships. The bank reports that approximately 60 percent of Cargill’s employees are immigrants with high turnover rates, and there is a constant cycle of new employees of different nationalities and ethnicities, including Guatemalans, Puerto Ricans, and Somalians. The remaining 40 percent is composed of long-term employees, many of whom were customers of Fort Morgan State Bank prior to the opening of its Cargill branch.

II. Initiatives

Market Research

In 2002, Fort Morgan State Bank began investigating ways to better serve unbanked individuals through a variety of research initiatives. The bank researched other banks’ approaches, successes, and failures by visiting a bank in Scotts Bluff, Nebraska that had opened a Hispanic-focused branch in its service area and consulting with banks that had established workplace branches in packing plants. In addition, the bank conducted a focus group to identify the needs of underbanked individuals in its service area and met with Hispanic community leaders to gain their perspective on what products and services banks should offer to the community.

Research participants emphasized the importance of utilizing bilingual branch employees to encourage and assist unbanked immigrants in the bank’s service area by providing education about bank products and services. In response, the bank hired three bilingual employees and notes that this addition to its staff has resulted in a significant improvement in its ability to outreach and serve unbanked, immigrant individuals. Fort Morgan State Bank reports that while its research did not define a complete and clear strategy for effectively serving the unbanked and underbanked, it provided helpful insight and ideas for further consideration.

Workplace Branch

As the bank continued to evaluate potential strategies based on its informative research findings, the large Cargill facility presented an opportunity to establish a workplace banking program for unbanked and underbanked employees. In 2006, Cargill contacted Fort Morgan State Bank about the possibility of opening a branch at the local facility and providing banking services to its employees. Cargill observed that during the course of the workday, employees tend to damage paper checks. This causes inconvenience to the employer's payroll staff, which must then reissue paper checks to replace damaged ones unfit for deposit or cashing. Cargill sought to reduce distribution of paper checks by encouraging direct deposit and promoting the convenience and benefit of banking relationships. The bank capitalized on the opportunity to reach a ready-made customer base of unbanked employees through a partnership with Fort Morgan State Bank.

In 2007, the bank opened a two-station branch at the Cargill plant in a hallway that employees frequent at the beginning of each shift. Unlike Fort Morgan State Bank's main branch, the Cargill branch operates 25 hours per week, with hours accommodating employees' lunch and break periods and the influx of payday transactions on Thursday afternoons and Fridays. Deposit customers can access funds through teller services during operating hours or through the on-site ATM 24 hours a day, seven days a week. Due to the size of Cargill's facility, the bank plans to deploy another ATM at the other end of the plant, improving accessibility and convenience for employees who usually walk a long distance to the branch to conduct transactions during their lunch break. The bank also offers fee-based check cashing for non-deposit customers, with an average of 200 checks cashed per month.

Fort Morgan State Bank presents its services as part of Cargill's orientation program for new employees. Cargill allocates 20 to 30 minutes for the bank to explain the Cargill Banking Benefit Plan. The package of banking services available to employees includes a free checking account, a complementary first box of checks, free debit card transactions for the first year, an additional 0.5 percent interest rate bonus for savings accounts, and a prepaid debit card. At the conclusion of the presentation, the bank gathers information from employees who would like to open deposit accounts. Since employers verify customer identity, direct deposit is the only eligibility requirement for account opening, regardless of the individual's ChexSystems record. The bank activates new accounts upon the direct deposit of employees' first paychecks. The bank reports that high visibility among Cargill employees, convenience of the branch, and trust built through its partnership with the employer has been helpful in establishing customer relationships.

Among new employees, few have had prior relationships with financial institutions, and most are not familiar with the banking system. To improve financial literacy and provide basic banking education, the bank offers financial education classes for Cargill employees and is currently developing a joint initiative with One Morgan County, a grant-funded assistance organization for new immigrants, to provide a financial training program using the FDIC Money Smart curriculum.

At its Cargill branch, Fort Morgan State Bank reports 400 active accounts as of August 2008, representing about 20 percent of Cargill's 2,000 total employees. While slower than expected, the Cargill branch has steadily increased the number of accounts opened. The bank continues to evaluate and develop approaches to make the Cargill operation a more profitable enterprise, but it is satisfied that the branch has broken even in its first year of operation.

The bank attributes profitability challenges to a number of concurrent factors. The rapid turnover of employees at Cargill results in a high number of closures within six months of account opening, as employees end their relationship with the bank upon leaving the company. In addition, the majority of accounts have low balances due to the prevalence of low-income workers living paycheck to paycheck, and many employees still use a combination of financial service providers (such as check cashers), depending on their immediate needs. These factors limit bank revenues from these new accounts. Although account closures due to negative balances occur more frequently at the Cargill branch than at the bank's main location, the bank makes a concerted effort to collect charge-offs to limit losses incurred.

Fort Morgan State Bank emphasizes that although these initiatives have not translated into profits in the short term, serving this segment will have a significant, long-term effect on its bottom line because providing banking services presents a clear value proposition to unbanked and underbanked employees and will gradually build a strong customer base. By establishing a relationship with their employer, the bank can also offer better flexibility and accommodation to customers by providing quicker funds availability than from alternative financial providers. The bank prices its products and services below that of alternative service providers as another competitive measure. In addition to offering the same services available from check cashers, payday lenders, and other providers, the bank also offers mechanisms for Cargill employees to enter the economic mainstream by providing information and applications for its loan and credit products at the workplace branch. (Bank employees can then transfer applications received at the workplace branch to the main branch for approval and processing.) Fort Morgan State Bank observes that its partnership with Cargill has increased traffic at the bank's main branch, signifying that some of its Cargill customers have been transitioning into more extensive banking relationships.

III. Lessons Learned

- **Offering banking services through their employers can be an effective approach to serving unbanked individuals.** Through employers, banks can access a pool of potential customers with steady income and a specific set of financial needs, which allows banks to tailor offerings accordingly. Banks can also leverage its relationship with an employer to build trust with unbanked employees and improve its ability to establish customer relationships.
- **Building a customer base in the unbanked and underbanked population requires patience and management of expectations.** Profitability issues may challenge banks in the short term, but raising financial awareness and developing customer relationships over time eventually leads to long-term benefits to both banks and customers.

- **Banks can more effectively compete with alternative service providers by becoming knowledgeable about the unbanked segment and being willing to adapt and adjust in accordance to their needs.** Fort Morgan State Bank developed and refined its products, pricing, and procedures as a conscious effort to challenge check cashing services and payday lenders and to provide greater benefits and incentives to unbanked individuals. As a result, it has gradually built a customer base both among unbanked Cargill employees and within the wider community.

About Fort Morgan State Bank

Fort Morgan State Bank is a one-office institution located in the town of Fort Morgan in Morgan County, Colorado. With \$48.8 million in assets, the bank also operates six ATMs in its service area. Fort Morgan State Bank focuses primarily on residential and commercial lending but has a well-diversified portfolio. Morgan Capital Corporation, a one-bank holding company, owns 100 percent of the institution's stock.

Assets, \$Th, as of September 30, 2008: \$50,994

I n t e r n a t i o n a l B a n k o f C o m m e r c e

International Bank of Commerce (IBC) strives to improve access to banking services by providing full-service, seven-day-a-week banking in grocery stores and shopping malls. IBC has reported success with outreach efforts, particularly in the Hispanic community. The bank visits high schools, vocational schools and colleges, workplaces, community-based organizations, and has two branch locations that operate mock banking services as part of an educational program at elementary schools.

“Each of the products we offer accomplishes a particular goal. Together, they help build awareness and trust in the community.” - George E. Daves, First Vice President and Corporate Compliance Officer

I. Target Population

Serving the Mexican Community

International Bank of Commerce (IBC) serves a large and growing Mexican immigrant community. In Laredo, Texas, where the bank’s main office and 17 of its branches are located, the local community is bilingual and transacts business in English and Spanish. Communities in IBC’s other markets share similar cultural and social characteristics to Laredo, and for this reason, many branch employees of IBC are bilingual, and of Hispanic descent.

The cultural and demographic makeup of its service areas presents particular challenges for IBC. First, the bank encounters mistrust of financial institutions within the Mexican immigrant community. Branch employees use IBC’s community outreach efforts as opportunities to build trust among the target population. Second, in some markets, such as Laredo and the Rio Grande Valley, many members of the community operate primarily with cash due to the prevalence of lower wage manual labor jobs. Workers often live paycheck to paycheck, so they need immediate access to funds. On payday, workers proceed to their nearest check cashing business and are charged 1 to 3 percent of their check to obtain the funds to pay bills and buy groceries. IBC instead offers to cash on-us checks free-of-charge for both customers and non-customers. Although non-customers cannot cash checks not drawn on IBC, tellers encourage non-customers to open an account with direct deposit so payroll can be accessed the morning of payday, rather than at the end of the day when receiving paper checks. Free Check Card access is available at IBC’s ATMs, as well as point-of-sale locations.

II. Initiatives

Free Banking Services

As part of its initiative to serve the unbanked and underbanked, in November of 1998 IBC's executive management decided to bundle a range of banking services and offer them free-of-charge, making them accessible to individuals who have not had a banking relationship. IBC's checking account product, which is free for customers, includes access to free bill pay, online banking, ATM use at all of its more than 400 ATMs, IBC Voice (a free 24/7 telephone banking service that allows customers to check their account balance and the last ten deposits and checks written), and IBC Mobile Banking. The program has been a successful strategy for serving the unbanked and underbanked community.

Because IBC attracts individuals who come in to cash on-us checks, the bank has also trained and mobilized its retail force to seek opportunities to establish banking relationships with non-customers, promote the free services package, and to cross-sell other products to existing customers.

Micro-Community Program

In 1995, IBC partnered with an elementary school to provide resources and guidance for the creation and operation of a student-run micro-community. This community's economy operates on a mock financial currency, "Cougar Cash." Students elect public officials, apply for jobs, earn wages, purchase goods, and pay taxes. The centerpiece of the micro-community is the on-campus IBC bank, where students can open accounts, make deposits, write checks, balance checkbooks, and withdraw their "Cougar Cash." Trained by IBC employees, students run the micro-community's branch and determine the bank's policies, operations, and procedures. At a young age, students gain exposure to financial institutions and education on personal finance in addition to leadership skills and responsibility. IBC's strong relationship with the school has also provided opportunities for outreach to parents, and branch employees have given financial education presentations to parents at PTA meetings.

IBC has developed micro-communities in three other schools, with each establishing and following its own curriculum. In the fall of 2008, IBC implemented a corporate-wide micro-community initiative to expand the program to one micro-community in each of its 11 regions.

Education and Outreach

IBC offers a variety of education and outreach programs in its service areas.

Like its micro-community program, Money Buzz educates children about personal finance. The bank conducts at least one free public seminar, which is based partly on FDIC Money Smart modules, in every market at local branches and malls. During the Money Buzz seminar, branch employees teach lessons on currency and the importance of savings. In addition, children learn through hands-on exercises and receive beehive-shaped coin banks with which they can begin saving. Money Buzz events attract good turnout and media attention that helps expose the community to the financial institution and its services.

In 2007, the bank conducted 30 FDIC Money Smart presentations. In addition, the bank sends employees into the community and surrounding businesses to make personal contact, deliver presentations to local employees about the benefits of banking services, and encourage account opening. Customers must visit one of the bank's branches to open an account. Branch employees have found that these outreach programs have been successful in acquiring new customers. As of July 2008, IBC has made 5,870 presentations to 28,492 local employees, many of whom were unbanked or underbanked individuals.

Extended Hours and Convenient Branch Locations

In focus groups conducted by IBC every 12 to 18 months, participants commonly cite "convenience" as the primary factor in determining which bank they select. To meet this need, in 1997, the bank launched seven-day banking in Laredo and McAllen, and customers responded positively to the extended hours, citing the convenience of the branches being open longer and more often. In markets where the bank has just recently expanded hours, branch employees have noted that building awareness of the branch's extended hours can be difficult. However, once customers are accustomed to having banking services available seven days a week, use and retention are very high.

Seven-day branches located in grocery stores, Wal-Mart stores, and shopping centers expand the accessibility and convenience of IBC's services. Customers who work late on weekdays can bank at those store locations during the weekend. For unbanked and underbanked customers, these locations also tend to be a more comfortable setting than the conventional brick-and-mortar financial institution. Bank employees also help create a welcoming environment by informally interacting and connecting with customers, walking the aisles of grocery stores, and offering to help them bag groceries. Making these potential customers comfortable is a key to getting them to open bank accounts.

Mobile ATMs

IBC operates four mobile ATMs that travel to different locations within its assessment areas, including street festivals and county fairs. The service enables customers to withdraw cash free-of-charge at the ATM van's location. Some of the newer models have ATMs on both sides of the van and are handicap accessible.

Mobile Banking

In June 2008, IBC introduced a free mobile banking service to help customers manage their finances and prevent overdrafts. Customers register for the service online or by phone and receive alerts via text message when their account balance falls below a specific amount determined by the customer.

III. Lessons Learned

- **Employing bilingual staff who understand the challenges and complexities of a bi-cultural community improves the effectiveness and impact of the bank's outreach to the unbanked and underbanked.** The bank uses education and outreach in a variety of forums, such as schools and workplaces, to familiarize the community with the institution and the benefits of developing a banking relationship.
- **Offering education and outreach along with a bundle of free banking services can provide the unbanked with tools to enter and remain in the banking mainstream.** When equipped with available tools and timely account information provided by the bank, customers can take full advantage of the bank's products and services.
- **According to the bank's research and experience, customers value the convenience of extended hours and branch locations in grocery stores and malls.** IBC accommodates the needs of its customers by providing services when practical and where customers are most comfortable. Once they become aware of and accustomed to these conveniences, the bank reports success in achieving customer satisfaction and retention.

About IBC

IBC was founded in 1966 to meet the needs of the small businesses of Laredo, Texas. Since its opening 40+ years ago, IBC has grown from less than \$1 million in assets to \$11.5 billion in assets. IBC serves over 100 communities throughout Texas and Oklahoma with more than 260 branches and over 400 ATMs. IBC is the largest minority-owned bank in the United States.

IBC's motto is "We Do More," and it has opened full-service, seven-day-a-week banks in grocery stores and shopping malls with the goal of improving customer access. IBC is a leader in delivering post-North American Free Trade Agreement (NAFTA) banking services in Texas, with 30 percent of the company's deposits coming from clients in northern Mexico. The bank strives to provide a quality banking experience and environment for anyone who walks in the door, regardless of whether they are a banked, unbanked, or underbanked individual.

Assets, \$Th, as of September 30, 2008: \$9,821,668

Mitchell Bank

Mitchell Bank responded to changing demographics in its service area by establishing a branch, branded as Cardinal Bank, in a high school located in a predominantly Latino neighborhood. Cardinal Bank is a student-operated branch now open four days a week. Through this branch, Mitchell Bank is able to successfully provide products and financial education to both students and parents. Since it began, Cardinal Bank has opened more than 800 new accounts, of which 90 percent are from unbanked households.

“In order for a product to be successful, you must remove the barriers that prevent the unbanked from becoming customers.”- James P. Maloney, Chairman

I. Target Population

When an influx of immigrants from Mexico and Central America began moving into the bank’s urban Milwaukee markets in the 1990s, Mitchell Bank decided to continue serving the area and adapt by targeting its marketing and outreach efforts to the Latino community. The bank also changed its focus to serve the unbanked and underbanked, the vast majority of whom were Latino. This focus put the bank in direct competition with check cashers and payday lenders. According to the 2000 Census, residents of Latino descent or origin comprise 75 percent of the population in Mitchell Bank’s service area. The bank estimates that 50 percent to 60 percent of the population in its service area is unbanked and 70 percent to 80 percent is underbanked, with alternative service providers conducting the vast majority of financial transactions prior to Mitchell Bank’s involvement in outreach.

The bank aims to position itself as the primary destination for all individuals seeking financial services. With 50,000 residents within a two-square mile area surrounding the bank, the heavy concentration of consumers and alternative service providers presents valuable opportunities for the bank to understand and serve the market. Mitchell Bank identified the types of services offered by alternative providers—such as check cashing, lending, and sale of bus passes and phones cards—and tailored and augmented its services accordingly. By offering the services available from alternative providers at lower cost, Mitchell Bank improved its ability to market and capture the business of the unbanked and underbanked population. As of June 30, 2007 and for the past several years, the bank has and maintains the largest deposit market share in its service area.

II. Initiatives

Outreach to Latino Community

Because the bank had little experience in working with the Latino community, bank management and employees reached out to community groups and formed relationships with nonprofit organizations, nongovernmental organizations, community organizations, politicians, and religious leaders to determine what products and services community leaders believed the bank should offer to best serve the Latino community. Community groups and representatives identified three primary obstacles hindering the unbanked population’s relationship with financial institutions: 1) lack of

trust, 2) identification and documentation issues, and 3) readily available access to alternative financial service providers in a cash economy.

Based on this feedback, Mitchell Bank developed a targeted approach. The bank sought to create a more inviting environment at its branches, both internally and externally. In addition to adorning branches with Spanish-language banners promoting banking services, the bank also offered an open invitation to the community, welcoming them to the bank, and displayed cultural symbols important to many in the Latino community, including the bank's lobby shrine to the Virgen de Guadalupe. The bank also hired a fully bilingual staff to remove language barriers.

The bank has found that once individuals recognize that the bank could offer the same services as alternative financial service providers, and at a lower cost, they are generally more amenable to exploring other banking products and services. Branch employees cross-sell products, provide face-to-face counseling, and explain how and why developing a banking relationship is a more beneficial, cost-effective, and safer way to conduct financial transactions. For example, non-customers pay higher fees for remittance services than customers, and after a non-customer uses the service once or twice, bank staff will encourage them to open a small bank account, which allows them to pay lower fees and eliminates restrictions on the amount of money they can send per transaction. However, the bank understood that these initial changes alone were not enough to overcome the community's mistrust of financial institutions and held community meetings to determine other ways to outreach and serve the needs of the Latino population.

Cardinal Bank

Introduced in 2000, **Cardinal Bank** is a full-service branch of Mitchell Bank located on the campus of a local high school with a need for education in and exposure to personal finance and banking services. The branch is operated by eight to ten students trained and supervised by Mitchell Bank employees. Most of the school's students were earning money working in co-op programs with employers or other part-time work. Many of the students used check cashers instead of banks to cash their paychecks, so the school requested that Mitchell Bank open a branch at the school where students could open deposit accounts. This allowed the bank to develop banking relationships with students and staff at the school and also provided a point of entry to the rest of the community by leveraging its partnership with the school. The community's trust in the school and its administration presented a valuable opportunity for the bank to build trust within the community. Furthermore, **Cardinal Bank's** physical location at the school created an atmosphere that was viewed as less intimidating than that of traditional banks.

Through its presence at the school, Mitchell Bank teaches students about financial literacy and reaches parents in a more amenable way than through conventional outreach methods. The bank is in contact with the school's administration on a regular basis to organize events and education sessions for the community. The generational dynamics within immigrant families have also been an important avenue for outreach to the unbanked, albeit indirectly. High school students from the second generation tend to be more acclimated and acculturated than their first generation immigrant parents and often become *de facto* financial advisors to their families. Equipped with education and regular banking habits through their experience with **Cardinal Bank**, students encourage parents to become part of the financial mainstream.

During **Cardinal Bank's** opening week, one student's parent arrived at the branch with cash wrapped in aluminum foil, which had been stored in the family's freezer for safekeeping. Although the parent wanted to open an account at **Cardinal Bank**, branch employees had to wait until the money thawed before it could be deposited. This experience, and other similar observations, exemplifies the need for banking services that can provide financial benefit and mitigate issues of theft and safety for the Latino community.

In the eight years since **Cardinal Bank's** inception, Mitchell Bank has opened more than 800 accounts for students and staff. Minors can open accounts without parental approval but are restricted from debit card access. Once students graduate from high school, they can request an upgrade to a regular checking product at Mitchell Bank's office, which transfers the account to the main bank rather than **Cardinal Bank**. The bank has not suffered any loss and is not aware of any incidents of account misuse.

Identification and Documentation Assistance

In response to the obstacle of documentation requirements noted by community groups, Mitchell Bank actively sought to assist individuals in the Latino community obtain forms of identification that would allow them to open accounts and establish banking relationships. In 2003, the bank began tackling this problem by providing Spanish-language brochures and conducting community events to inform potential customers about ways to obtain identification. Potential customers who did not have sufficient documentation for account opening were encouraged to obtain state-issued identification since they were eligible for drivers' licenses even without Social Security numbers under state law.

Rather than turning away individuals who did not meet the bank's identification requirements, Mitchell Bank took initiative to help them obtain the identification they needed. The bank communicated with the Department of Motor Vehicles (DMV) to confirm eligibility rules and relayed information and provided relevant forms to customers. This program successfully addressed a primary concern of the community and built awareness and trust in the institution. Mitchell Bank continued the program until a new law was enacted in March 2007, which stipulated that Social Security numbers were required in order to apply for state-issued identification.

Adapting to its market, Mitchell Bank also modified its own identification requirements for banking services. The bank began accepting the Matrícula Consular card and sponsored the Mexican Consulate to visit its Milwaukee location and issue Matrícula Consular cards. The event attracted over 1,500 individuals to the branch, and many opened bank accounts during their visit. Mitchell Bank was also one of the first financial institutions in the nation to become a certifying Individual Tax Payer Identification Number (ITIN) acceptance agent. As an agent for IRS, the bank will process an ITIN application, without charge, to allow individuals without a Social Security number to open an interest-bearing account and pay their taxes. From 2003 through September 2008, the bank processed over 3,200 ITIN applications, each representing a new account for a formerly unbanked consumer. Offering these services to the community has been critical to bring unbanked individuals into the banking system.

Remittances

Mitchell Bank participates in Appleseed's Fair Exchange program,¹² and since 2005 the bank has been and remains the largest volume user of Directo á Mexico,¹³ in the nation. The bank prides itself on its transparency and disclosure practices, particularly due to the prevalence of hidden fees and high rates among alternative service providers. On a daily basis, the bank posts foreign exchange rates for all of its products and that of its competitors in branch lobbies, which informs customers of how much money their family will receive upon transfer and allows them to comparison shop for the most favorable product and provider. The bank's transparency has been well-received, and the community has appreciated that the bank provides information on fees, charges, and rates upfront.

Small Dollar Loan Program

Mitchell Bank participates in the FDIC's Small Dollar Loan Program Pilot Program.¹⁴ Initially, the bank limited its Small Dollar Loan product to customers with at least a six-month relationship with Mitchell Bank due to concerns regarding the customer's ability to repay and lack of collateral. However, the institution recently decided to begin a pilot program that will offer small dollar loans to ITIN borrowers and non-customers in order to increase volume and exposure in the market. To mitigate its increased risk, the bank reduced the size of the loan to non-customers and ITIN borrowers from \$1000 to \$500. This change has provided new marketing avenues and the bank has experienced an increase in loan inquires and activity.

III. Lessons Learned

- **The bank employed an effective and informative strategy for determining how to best serve the unbanked and underbanked by asking community members and organizations for their insight on the types of products needed and how the bank should provide these offerings.** Mitchell Bank also gained immediate acceptance from the community because the bank demonstrated a willingness to listen, modify their offerings, and execute successfully.
- **Once the bank gained the community's trust, customers became more willing to open depository accounts and develop deeper banking relationships.** The bank is able to leverage this trust as an opportunity to suggest other ways to conduct financial transactions that are more affordable, safer, and effective. Employing a knowledgeable bilingual staff has helped the bank become a source of information for banking products, guidance, identification assistance, and financial management to the community.

¹² In 2007, Appleseed, a national legacy advocacy organization, partnered with financial institutions to develop a "Fair Exchange" brand that designates services that voluntarily disclose all fees, exchange rates, and other services that enable consumers to make informed decisions. Consumers can then identify the most favorable remittance fees and exchange rates and participating institutions who present clear, up-front information on their remittance products are rewarded for their transparency with greater market share.

¹³ "Directo a México" is a payment system established by the Federal Reserve and Banco de México that enables consumers to transfer funds from a bank account in the United States to any bank account in Mexico.

¹⁴ Key features of the FDIC Small Dollar Loan Pilot Program may include: loan amounts up to \$1,000, amortization periods longer than a single pay cycle and up to 36 months for closed-end credit or minimum payments that reduce principle (that do not result in negative amortization) for open-end credit, no prepayment penalties, origination and/or maintenance fees limited to the amount necessary to cover actual costs, and an automatic savings component. (See: <http://www.fdic.gov/smalldollarloans/index.html>.)

- **Continually evaluating and developing products and services enables the bank to meet the changing needs of its market.** Despite its success in outreach to the unbanked and underbanked, Mitchell Bank seeks new and better ways to serve the community, learning constantly from its past experiences and those of other institutions.

About Mitchell Bank

Founded in 1907, Mitchell Bank is an \$81.8 million family-owned community bank that is wholly owned by Mitchell Bank Holding Company, a one-bank holding company located in Milwaukee, Wisconsin. The bank operates out of 11 banking offices in Milwaukee County and Waukesha County. Mitchell Bank is at the forefront of the push to reach Latino communities and is a leader in reaching unbanked individuals.

Assets, \$Th, as of September 30, 2008: \$78,750

Monroe Bank & Trust

Monroe Bank & Trust has developed a strong community presence in its service area through its extensive employee volunteer program, which assists over 100 nonprofit organizations in its local market. By leveraging relationships with local agencies and community organizations, the bank is currently expanding its education and outreach efforts to include financial education programs delivered in neighborhoods with high unbanked populations and a “Learning Bank” to provide financial literacy training for low-income individuals. In addition, the bank offers a transitional, second chance deposit account, Opportunity Checking, for customers ineligible for standard checking accounts.

“Being a publicly conscious organization has motivated us to expand and tailor our education and outreach efforts and to offer a targeted product for the unbanked.” – H. Douglas Chaffin, President and CEO

I. Target Population

Monroe Bank & Trust’s primary service area is Monroe County, Michigan, where 20 of its branches are located. The bank also has five additional branches in Wayne County. Some of these branches serve low- to moderate-income Census tracts, where minorities represent a significant portion of the population; in one specific zone known as Orchard East, African Americans represent 31 percent and a growing Hispanic community represents 5.2 percent, according to 2000 Census tract data. The bank cites local economic and employment issues as main drivers for population trends, and long-time residents have begun leaving the area in response to rising unemployment and plant closings in the automobile industry.

II. Initiatives

Volunteer Organization: ENLIST

To encourage bank employees to serve their local communities, Monroe Bank & Trust established **Employees Now Linked in Service Together (ENLIST)**, a unique bank-sponsored volunteer organization that rewards employees with additional time-off for participation. For every 25 hours employees volunteer for bank-approved projects in the community, they receive one vacation day up to a maximum of five days per year. Currently, out of the bank’s 380 total employees, 300 participate in **ENLIST** and volunteer their time assisting about 100 different nonprofit agencies for a total of approximately 9,000 man hours annually.

Monroe Bank & Trust leverages its strong community relationships to develop, refine, and validate its approaches. Community leaders have identified financial literacy as a primary need in low- to moderate-income areas, and in response, the bank has made financial education a priority in its efforts to serve the unbanked and underbanked. For many years, the bank has provided educational sessions on basic banking, home ownership and mortgage products, and savings programs both at the bank and through outreach programs at high schools, employer sites, public events, and community organizations, either on a scheduled or ad hoc basis.

As an extension of **ENLIST**, Monroe Bank & Trust is currently developing **MBTeach**, a financial literacy program that would provide similar incentives for bank employees to volunteer. Designed as

a formalized approach to the bank's existing educational outreach programs, bank employees participating in **MBTeach** will deliver seminars based on the FDIC Money Smart curriculum in market areas where such programs would be most valuable, such as faith-based organizations, service agencies, and high schools in low- to moderate-income Census tracts. Topics will expand upon those covered in previously offered seminars, such as basic banking, mortgages, and first-time home purchases.

In addition, the bank is working with local agencies, city officials, community centers, and a community college, to convert a former branch facility into a "Learning Bank," which will offer adult continuing education courses, including financial literacy training, for low-income residents. The "Learning Bank" will also serve as a platform for marketing the bank's entry-level checking product, which is described in greater detail below. Monroe Bank & Trust reports receiving support and positive feedback from the community throughout the developmental and planning stages, and plans to launch the center in 2009.

Bank at Work

Branch managers leverage their close ties to commercial and business customers in the community to deliver education and services to employees, at the employer's request or via the bank's initiative. On occasion, Monroe Bank & Trust sends branch employees to facilitate **Bank at Work** programs at employer sites where they conduct informational sessions, market relevant products to employees, and open accounts on-site. Bank employees observe that **Bank at Work** programs have been somewhat successful in initiating new customer relationships; however, statistics have not been systematically tracked.

Opportunity Checking

After attending presentations on entry-level and second chance deposit accounts, Monroe Bank & Trust decided to design their own formal checking product for unbanked and underbanked customers seeking to enter the economic mainstream. The bank launched its **Opportunity Checking** product in January 2008. At the discretion of branch managers, **Opportunity Checking** may be offered to customers, who would otherwise have been automatically rejected based on ChexSystems, as a stepping stone in transitioning to a more traditional checking account. Restrictions placed on these accounts include no overdraft privileges, no deposit transactions through ATM or debit cards, \$10 monthly service fee, and \$300 maximum ATM withdrawal. After 12 months, customers exhibiting proper account management can request an upgrade to the bank's standard checking product.

As of August 2008, the bank has 28 active **Opportunity Checking** accounts. While the bank does not engage in advertising this second chance checking product, branch employees are expected to determine customer needs and refer products, such as **Opportunity Checking**, when appropriate. The bank also seeks to expand customer acquisition through its planned educational outreach efforts in unbanked and underbanked communities.

III. Lessons Learned

- **Strong relationships with community leaders and organizations can help banks build trust among unbanked populations and maximize the impact of their outreach efforts.**

In response to feedback from community leadership, the bank expanded and formalized its financial education offerings and is developing a financial literacy training center specifically for low-income residents. These educational efforts have been developed and will be delivered in close partnership with community organizations, which the bank believes will improve their effectiveness and reach among unbanked populations.

- **Banks must develop broad and varied strategies to reach out and deliver education and services in the neighborhoods where unbanked and underserved consumers reside and frequent.** Banks cannot expect to successfully outreach these individuals by utilizing a single approach or single location. Instead, a variety of outreach and educational approaches adapted to the community can enable banks to deliver information and services relevant to specific segments of unbanked populations and be more effective in encouraging them to establish banking relationships. A product like **Opportunity Checking** in the bank's product portfolio can help unbanked individuals ease back into the banking system.

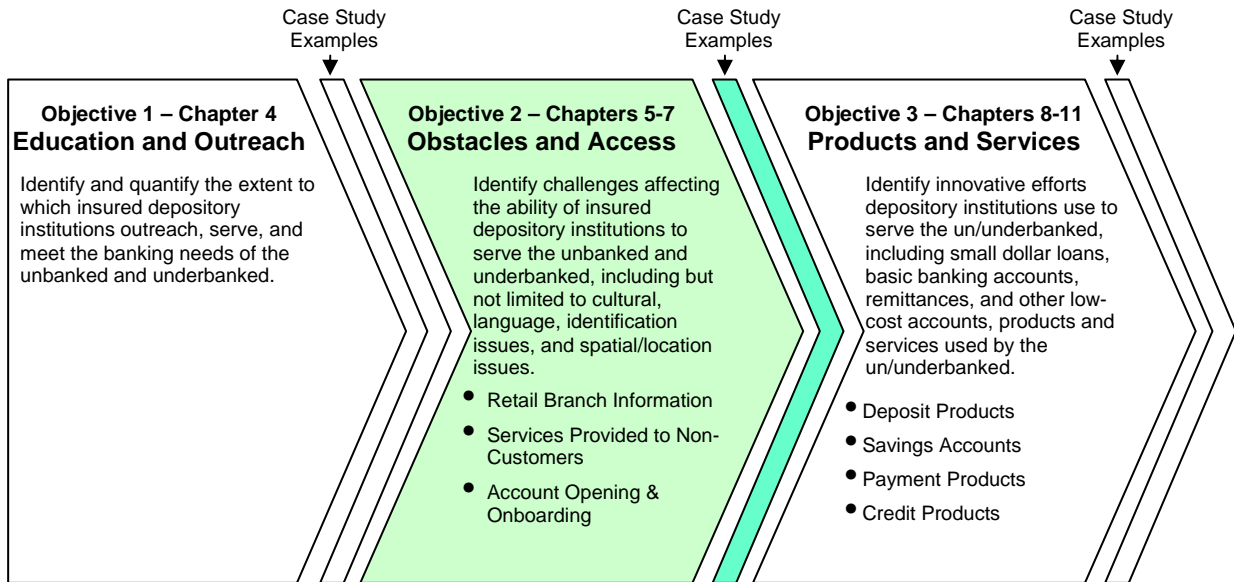
About Monroe Bank & Trust

Monroe Bank & Trust is a commercial bank headquartered in Monroe, Michigan. It is wholly owned by MBT Financial Corporation, a one-bank holding company also located in Monroe, Michigan. Monroe Bank & Trust opened a mortgage subsidiary, MBT Credit Company, Inc. on February 25, 2002. MBT Credit Company, Inc. is 100 percent owned by the bank. Monroe Bank & Trust operates 25 full-service offices and 41 ATMs.

Monroe Bank & Trust's customer base consists primarily of consumer and residential borrowers and area small- and medium-sized businesses. The bank's primary business strategy is that of a "community bank" with a primary business focus on residential real estate mortgages and small business lending. All branches offer full lines of deposit products and loans, such as commercial loans, mortgage and home improvement loans, lines of credit, and consumer installment loans. The bank is also active in the secondary mortgage market through the sale of qualified residential real estate mortgages with its mortgage subsidiary MBT Credit Company, Inc.

Assets, \$Th, as of September 30, 2008: \$1,504,721

Banks' Efforts to Address Obstacles and Access



Obstacles and Access

The four case study banks highlighted in this section utilize a variety of approaches to mitigate barriers and overcome obstacles faced by unbanked and underbanked individuals in their service areas.

| Institution | Target Population | Initiative |
|---|---|--|
| Bangor Savings Bank (Bangor, ME) | Low- to moderate-income individuals in primarily rural areas | Mitigates geographic barriers and improves accessibility of banking services by offering extended service hours, account access via Web and telephone, and full refunds on surcharges incurred when using any bank's ATM |
| Citizens Union Bank of Shelbyville (Shelbyville, KY) | Hispanic community in Kentucky MSAs | Opened Hispanic-focused branch, <i>Nuestro Banco</i> , which accommodates customers by employing bilingual staff, operating during non-traditional hours, and adopting a more casual and culturally-sensitive environment |
| Ridgewood Savings Bank (Ridgewood, NY) | Diverse immigrant and retiree populations in Queens and Bronx boroughs of New York City | Hires bilingual staff, publishes bilingual marketing materials, and advertises in local ethnic newspapers according to demographics of each branch's market area; provides full range of banking services in mobile branch that regularly visits elderly communities and other locations with limited access to branches |
| Second Federal Saving (Chicago, IL) | Mexican immigrant and Mexican-American population in Chicago's South Side | Helps undocumented individuals obtain identification required to open accounts by sponsoring visits by the Mexican Consulate to issue Matrícula Consular cards at the bank and by becoming an Individual Taxpayer Identification Number (ITIN) acceptance agent |
| Common Lessons Learned | | |
| <ul style="list-style-type: none"> ▪ Recognize changes in customer demographics, assess obstacles in your market, and address them accordingly. ▪ Offering banking services in a less formal setting or more convenient location can help the unbanked and underbanked feel more comfortable with financial institutions. ▪ Providing greater and more varied means of access (e.g., extended hours, web/phone access) also encourages unbanked and underbanked individuals to become customers. ▪ Bank employees play an important role in welcoming unbanked customers and making them feel at ease by assuaging misperceptions about banks, showing sensitivity to their needs, and communicating in their native languages. | | |

Bangor Savings Bank

Bangor Savings Bank has developed a business model that encourages inclusion, lowers barriers for developing customer relationships, and provides opportunities to help unbanked and underbanked individuals enter the mainstream banking system. In particular, the bank focuses on providing its regular products with greater accessibility and improved service as part of a sustainable model for outreach and inclusion.

“Overcoming the barriers of time, geography, and access and connecting customers to today’s economy are essential to the prosperity of our communities and the sustainability and growth of our institution.”

- John Moore, Senior Vice President of Community Development Lending

I. Target Population

Bangor Savings Bank serves more than 125,000 households across Maine, representing about 20 percent of the state. The bank’s geographic service area incorporates the State of Maine including three metropolitan statistical areas: Bangor, Lewiston- Auburn, and Portland. However, most of the 16 Maine counties represented are rural, characterized by economies based on natural resources and modest household incomes. The bank notes that while the state reports low- to moderate-income overall, rural communities typically exhibit incomes lower than the state average, with many unbanked and underbanked residents within that demographic. Furthermore, rising energy costs and an aging population have had a notable effect on the state’s economy and the financial situation of its residents. Unbanked and underbanked individuals served by the bank include clients served by social service programs, youth, Native Americans, and other low-income individuals.

II. Initiatives

Increased Accessibility

Given its rural customer base, Bangor Savings Bank has sought to mitigate geographic barriers and other customer considerations, such as disabilities or nontraditional working hours, by offering multiple methods of access to the bank and its services free-of-charge. Bangor Savings Bank emphasizes that its customers need not visit one of its bank branches in order to access their funds. Nevertheless, for customers who prefer face-to-face interaction, branches in certain markets have extended hours up to 60 hours per week, open from 7:30 a.m. to 5:30 p.m. on weekdays and until 5:30 p.m. on Saturdays to accommodate commuters and full-time workers. The bank also offers the option of free ATM banking and drive-up windows at most retail branch locations.

The bank has found that offering account access through electronic banking services is an important tool for providing services to customers and for encouraging unbanked and underbanked individuals to become customers. Bangor Savings Bank reports that electronic banking, specifically direct deposit, promotes savings because customers can allocate and deposit a portion of their paycheck into a savings account before they receive the money in a tangible form. This capability is particularly important for individuals of low- to moderate-income who are less likely to save on a regular basis, as it helps them easily create a personal savings plan that requires minimal effort.

To further facilitate access, the bank offers free ATM access anywhere in the world. Not only does Bangor Savings Bank not charge fees to customers who use other bank ATMs, it refunds surcharges assessed by the other banks. Free ATM services are available to all customers, with no limitation on type of account, frequency of use, or amount of ATM fees. Customers can use banking services where it is most convenient for them without having to visit a Bangor Savings Bank branch or ATM. The bank incurs costs of over \$1 million per year to support this service.

The bank also regards its Web portal as an “electronic branch” where customers can obtain information and access services. Online capabilities are available free-of-charge to all customers and include bill payment, credit approval, and consumer and mortgage information. The bank has found that retired customers, in particular, have benefited from online access, citing that it allows them to stay connected while using contemporary banking services.

Automated phone services are available toll-free 24 hours a day and enable customers without access to online banking to conduct basic banking transactions and inquiries, such as transferring funds and checking balances. For customers in need of more personalized service, a voice-to-voice phone call connects them directly to a customer service representative who can provide live assistance for their banking needs six days a week. The bank has found that phone-accessible services are particularly helpful for customers with disabilities or geographic limitations.

Reducing Overdrafts and Fees

The bank also emphasizes its efforts to lower barriers through its business practices and customer service, rather than offering specialized products, as a way to respectfully and purposefully encourage unbanked individuals to develop a customer relationship. For example, the bank encourages direct deposit by offering a no-service-charge checking account. In total, Bangor Savings Bank provides direct deposit and free online banking to 70,000 Social Security and SSI recipients.

Bangor Savings Bank offers products and services to help minimize overdrafts, which is a common obstacle for unbanked and underbanked individuals. Overdraft protection programs include **StandBy Money Line of Credit**, which offers up to \$1,000 to cover overdrafts, and **Savings Account Link**, which automatically transfers funds from savings accounts to cover the overdraft amount. The Bank also offers **No Return Benefit (NRB)**, a courtesy overdraft program that allows customers to pay checks in excess of their balance up to a predetermined limit. The bank also systematically identifies accounts with excessive overdrafts in order to provide personal coaching and improve financial management. Customers can also enroll in a **Fresh Start Program** to repay their overdraft balances, which allows them to maintain checking account privileges while receiving coaching from a bank employee.

Observing that competing banks may process items in order of largest to smallest check amounts, Bangor Savings Bank elects to pay checks sequentially, in the order in which they were written. The bank believes that ordering checks paid by amount can create more overdraft situations and cause overdraft fees to be incurred on more checks. By using a sequential order, the bank hopes to reduce the number of bounced checks and respect the intent of the customer.

Benefit Checking

Benefit Checking is an entry-level account geared to students and customers who tend to maintain lower balance or earn lower incomes. For this product, the bank lowered the opening deposit

requirement from \$100 to \$25, and waived minimum balance restrictions, service charges, and monthly fees. However, **Benefit Checking** customers still have access to all of the same services and methods of access, including online banking and billpay, as other Bangor Savings Bank customers. The bank cites this product as one way in which it lowers financial obstacles that prohibit unbanked and underbanked individuals from opening an account.

Bangor Workplace Advantage

As part of its outreach efforts, the bank offers **Bangor Workplace Advantage** to employees of its business customers, bringing information, education, and banking services to the workplace. For employees who do not have an existing banking relationship with Bangor Savings Bank, the bank offers to open a free **Benefit Plus Checking** (i.e., premium NOW account) account on-site and provides the initial \$25 required as an opening deposit. Customers benefit from direct deposit of their paychecks. The bank reports that since the program's inception, more than 175 workplace outreach efforts have been conducted resulting in nearly 600 new accounts. Employees realize that they qualify for an account and can become a banking customer.

Individual Development Accounts (IDA)

Bangor Savings Bank partners with other organizations in Maine that provide financial literacy and career development training. Through relationships with local community groups, foundations, and nonprofit organizations, the bank initiates, sponsors, and runs the IDA program. This provides another opportunity for these organizations to assist their clients. In turn, the bank gains a foothold in the community as a trusted partner and service provider for both the organization and for unbanked individuals.

The bank's IDA programs span a variety of target groups. The Maine Youth Opportunities initiative focuses on adolescents in foster care and provides them with access to checking accounts, free ATM, and online banking services. The Jobs for Maine Graduates organization incorporates Bangor Savings Bank's IDA into its financial literacy and career development program. Aspiring first-time home owners can also participate in the IDA program through local community organizations.

Partnerships with Third-Party Organizations

Community outreach efforts are primarily delivered through third-party organizations that already have relationships and connections with a particular population segment. The community groups include Coastal Enterprises Inc., Women Work & Community, Four Directions Development Corporation, and Jobs for Maine Graduates. As part of the bank's relationships with these organizations, bank employees support and participate in the community group's educational outreach programs. In turn, the organizations inform and encourage their clients to bank with Bangor Savings Bank, which then becomes the face of the banking industry for these groups. Bangor Savings Bank opens several hundred accounts annually as a result of community outreach efforts through third-party partnerships.

Bangor Savings Bank also helps nonprofit organizations operate their programs by providing technical assistance and financial services to streamline and manage their operations. For example, the bank set up a cash management system for an organization that provides financial literacy training and matched savings for youth receiving foster care services. The system includes ACH

origination capacity that allows the organization to efficiently send out electronic stipends to participants at any financial institution statewide instead of writing a high volume of small checks. As a result, funds can be easily moved, tracked, and recorded from the organization to program participants. By utilizing electronic banking services to optimize efficiency, nonprofit organizations can improve their ability to serve a broader rural geography. Bangor Savings Bank regards this as a sustainable approach since it helps community organizations increase their client base and provides the bank with more opportunities to build customer relationships with unbanked and underbanked individuals.

Needs assessment and feedback from nonprofit community partners have also resulted in the bank developing new services to improve access. For example, the bank is working to provide and coordinate multiple language translation and interpretive services and provide support for both hearing impaired and visually impaired customers.

III. Lessons Learned

- **Providing greater and more varied means of access to dispersed, rural communities encourage unbanked and underbanked individuals to become customers.** The bank has expanded branch hours, free ATM, free Electronic Benefits Transfer (EBT) ATM access, free online banking, and services via Web and telephone to overcome common barriers for using banking services and to improve convenience and comfort level to potential customers.
- **Implementing business strategies that bring value to the unbanked and underbanked is integral to the bank's ability to grow and sustain its customer base.** Increased accessibility and improved banking products and services not only serve the unbanked and underbanked, but also the bank's entire customer base. Furthermore, the bank views this as a more respectful and effective approach to bringing unbanked individuals into the economic mainstream.
- **Forming mutually beneficial partnerships with nonprofit organizations promotes a sustainable business model for serving unbanked and underbanked individuals.** The bank leverages established organizations' connection and presence in the community to maximize the effectiveness of its outreach efforts. Its nonprofit partners, on the other hand, benefit from improved operational efficiency through the bank's technical assistance and financial services.

About Bangor Savings Bank

Bangor Savings Bank, headquartered in Bangor, Maine, is a \$2.3 billion retail financial institution that operates as a state mutual savings bank. It offers retail banking and trust services to Maine consumers as well as large commercial, corporate, and small business banking services to Maine businesses at its 51 deposit branches. Established in 1852, the institution expanded its service area throughout the state through mergers with regional banks and acquisition of offices. In its most recent FDIC CRA Public Performance Evaluation, the bank received the highest possible “Outstanding” rating.

Assets, \$Th, as of September 30, 2008: \$2,318,810

Citizens Union Bank of Shelbyville

In July 2007, Citizens Union Bank opened a branch called Nuestro Banco (“Our Bank”), a Division of Citizens Union Bank, to target the Hispanic community. A major component of their strategy to reach the Hispanic market is its branch configuration. Nuestro Banco provides a welcoming environment to enhance the banking experience. It competes with small check cashers and large payday lenders. Citizens Union Bank also offers two affordable small dollar loan programs and provides extensive outreach to underserved populations.

“The more we learn about our market, the more we try to reach out and cater to their needs. It’s a good business decision to do this, but more importantly, as an organization we believe it is the right thing to do.”
- Kimberly Davis, First Vice President

I. Target Population

Serving the Hispanic Community

In 2004, the bank started seeking better ways to serve its local Hispanic population and has significantly expanded its efforts in recent years. This effort came about, in part, due to observations by bank employees suggesting that members of the Hispanic community in Shelbyville, Kentucky, used high-cost alternative financial service providers, such as check cashers, and obtained financing through used car dealerships. In addition, a review of local population trends by the bank revealed that the Hispanic community was the largest unbanked demographic in its service area. Armed with this information, bank staff took the initiative to develop specific outreach strategies to address the financial product and service needs within Shelbyville’s Hispanic community. After three years, the bank decided to expand its efforts beyond Shelbyville, beginning with Louisville. Today, Citizens Union Bank has Hispanic-targeted outreach strategies across its 20 branches.

The bank also recognizes that Hispanics are not the only populations that are unbanked and underbanked within its service area. To become more inclusive in their outreach efforts, the bank has included additional programs that address the diverse needs of the wider community, including African Americans, single parents, U.S. military personnel, and any other unbanked and underbanked residents.

II. Initiatives

Nuestro Banco

In July 2007, Citizens Union Bank opened the first known Hispanic-focused branch in Kentucky. The branch, **Nuestro Banco**, a Division of Citizens Union Bank, is completely bilingual; employees answer telephones in Spanish. Operating hours differ from that of other branches, staying open until 7:00 p.m. on Friday and from 9:00 a.m. to noon on Saturday. In addition, Citizens Union Bank paid attention and care to the physical aspects of **Nuestro Banco**, which looks markedly different than Citizens Union Bank’s other branches. With the help of its Hispanic employees, the bank decorated **Nuestro Banco** with familiar cultural objects and a traditional color scheme to create a casual and welcoming environment for its customers.

The bank introduced new banking products that were responsive to the banking needs of the Hispanic community. Aware that some in the Hispanic community are unable to open accounts because of the lack of traditional identification, the bank offers check cashing services as an alternative. If the bank can verify the check presented, non-customers can cash the check at a lower fee than at local check cashers. If an individual opens or already has a bank account, they can utilize Directo a México, in which Citizens Union Bank is enrolled, to send money.¹⁵ Using Directo a México, customers can transfer money from their bank account to that of their relatives in Mexico at a better exchange rate than elsewhere in the community and for a smaller fee (\$2.50 to transfer less than \$400, and 2.5 percent for amounts above \$400).

Due to the range of valuable services provided to the Hispanic community, **Nuestro Banco** has succeeded in opening more new accounts than any other branch in the Citizen Union Bank's network since its opening. The branch averages 65 account openings per month, totaling 1,861 checking and savings accounts through June 2008. Only three accounts have been closed in the 11 months since the branch's opening.

Education and Outreach

To increase the reach of its financial education programs, Citizens Union Bank partners with community organizations, including local churches, Catholic Charities, the Kentucky Council on Economic Education, Centro Latino, the Housing Partnership, and Kentucky Housing. Bank employees meet with community organizers to determine how the bank's programs can best meet the needs of its organization's members. Bank employees help the organizations determine which classes from the FDIC Money Smart curriculum the bank offers. Financial education sessions are frequently held off-site to encourage attendance in a more comfortable setting. In addition to education, the bank also conducts extensive outreach efforts in the communities it serves to promote account opening and offers to open accounts off-site.

Financial education programs are well-attended, with classes normally attracting 12 to 20 people. Some classes, such as one geared to school teachers seeking guidance on how to educate students on personal finance, has attracted nearly 400 attendees. The bank found that the FDIC Money Smart program works well because it provides all materials needed to teach the course. Attendees receive handouts and participate in a Q&A session at the conclusion of the class.

Organizing these financial education programs is a joint effort between the bank and local community organizations. While the bank often reaches out to organizations to offer its services and programs, community members also take initiative to request help from the bank. For example, customers may come into the branch to inquire about a local event that would benefit from a financial education session, or community members may approach branch personnel during other events, such as community fairs. To gain further insight into the needs of different constituencies within the community on how to tailor the bank's education programs, the bank works closely with members of both the bank's Hispanic Advisory Council and the African-American Advisory Council.

¹⁵ *Directo a México* is a payment system established by the Federal Reserve and Banco de México that enables consumers to transfer funds from a bank account in the United States to any bank account in Mexico.

Secured Checking Account

In February 2003, Citizens Union Bank of Shelbyville began offering **Secured Checking Accounts** to help people who have mismanaged past accounts or are in ChexSystems re-establish themselves in the banking mainstream. Working in tandem with branch personnel for counseling and education, customers must demonstrate an intention and willingness to work toward restoring a good history. With cash or direct deposit of \$100 and a \$10 monthly service charge, they can open a **Secured Checking Account** that allows unlimited transactions, no minimum balance, access to a Citizens Union Bank Check Card, and free internet banking. However, the account does not allow online bill pay or check writing. After six months in **Secured Checking**, customers can transition to **Freedom Checking Accounts**, the bank's regular checking account product. **Secured Checking** provides a valuable opportunity to bring customers back to creditworthy standing. As of June 2008, the bank had 185 **Secured Checking** Accounts outstanding.

Fresh Start Program

If a customer continually has a negative balance, they can transition to **Fresh Start**, a repayment program for overdrafts on accounts. Customers usually request assistance to correct their account, and after review, branch personnel may refer them to the program. Payments are made over the course of six months on a monthly, semi-monthly, bi-weekly, or weekly basis, depending on customer preference. At any time, customers can pay the remaining balance. **Fresh Start** does not charge fees or interest, so the customer pays only the principal balance due while their account remains open and active. The bank currently has 322 active accounts in **Fresh Start**.

Neither **Secured Checking** nor **Fresh Start** is actively marketed by the bank. Instead, customers are informed of the programs' availability by employees when they come in to open an account or are referred on a case-by-case basis.

FDIC Small Dollar Loan Pilot Program

Citizens Union Bank has been selected to participate in the FDIC's Small Dollar Loan Pilot Program, a project intended to identify ways in which banks can incorporate affordable, small dollar loans into their menu of banking services.¹⁶ As part of this program, the bank designed **Payday Alternative Loans (PAL)** around the FDIC's affordable small dollar loan guidelines. These loans are available for customers looking for smaller loans but who do not qualify for regular loans. **PAL** allows first-time borrowers to borrow \$300 to \$600, which is repaid over the course of six months. Each customer can receive a maximum of three loans per year but can only have one **PAL** outstanding at a time. The bank takes borrowers through counseling prior to getting the loan, but if a borrower exhibits a pattern of continual mismanagement, branch personnel will offer financial education and one-on-one budget counseling. Since the program's launch in June 2007, the bank has closed one **PAL**.

¹⁶ Key features of the FDIC Small Dollar Loan Pilot Program may include: loan amounts up to \$1,000, amortization periods longer than a single pay cycle and up to 36 months for closed-end credit or minimum payments that reduce principle (that do not result in negative amortization) for open-end credit, no prepayment penalties, origination and/or maintenance fees limited to the amount necessary to cover actual costs, and an automatic savings component. (For more information, see: <http://www.fdic.gov/small-dollarloans/index.html>)

Outreach to Military Personnel

In May 2007, Citizens Union Bank acquired Fort Knox National Bank, now rebranded *Fort Knox Bank, a Division of Citizens Union Bank*. Seeking opportunities to serve members of the military at Fort Knox, the bank has begun offering small **PALs** at the branch. They have also created the **Hero Rewards Account**, designed specifically for members of the military. This interest-bearing checking account requires no minimum opening deposit, offers unlimited rebates on other bank's ATM fees, provides direct deposit from Defense Finance and Accounting Service (DFAS) payroll accounts, and charges a \$5 fee for balances below \$100. As of June 10, 2008, the bank has opened 814 **Hero Rewards Accounts**.

Financial Counseling for Mortgage Programs

The bank offers mortgage programs to help otherwise ineligible homebuyers become qualified for home loans. Through a series of step-by-step educational programs, the bank provides applicants with vital information on how to handle loan products while assuring the bank that applicants possess the necessary financial understanding when considering their mortgage applications.

The bank has also begun a pilot program which offers financial counseling to single parents seeking to become eligible for a home owner's loan. As of June 2008, four single mothers have participated in the pilot program's financial counseling program to qualify them to become homebuyers, and eight more applications to the counseling program are in progress.

Regulatory Challenges

Because the bank serves a community that includes a sizeable population of undocumented residents, bank employees face some challenges in providing the community with valuable financial services while continuing to respect the regulatory considerations and sensitivities involved. In accordance with the Bank Secrecy Act (BSA) and the U.S. Patriot Act, particularly the Customer Identification Program (CIP), the bank follows strict guidelines for identification and verification of potential customers. However, the bank recognizes the variety of identification types that exist and accepts Matrícula Consular cards, foreign government identifications, and Individual Taxpayer Identification Number (ITIN), in addition to more traditional forms of identification, for account opening. Citizens Union Bank also partners with its local consulates to help potential customers obtain Matrícula Consular cards and has sponsored consulate visits to the bank.

Citizens Union Bank has also become an ITIN Acceptance Agent to help customers without Social Security numbers obtain an ITIN. Once customers have opened an interest-bearing account, they can obtain an ITIN through the bank without paying a fee for the service.

III. Lessons Learned

- **Having bilingual employees has been the lynchpin of the bank's success.** Regardless of the products and services a bank has to offer, the ability to connect with the community and speak to them determines how well the products are received, understood, and handled.

- **Offering banking services in a more casual or convenient setting can help the unbanked and underbanked feel more comfortable using banking services.** In addition to the specially designed and decorated Nuestro Banco, the bank also has a branch at a local Wal-Mart store in Shelbyville, which is a more convenient and comfortable setting to reach out to the unbanked and underbanked. The bank is also rebranding one of their current branch locations as a Citizens Union Bank and a Nuestro Banco, a Division of Citizens Union Bank.
- **Working with businesses and employers can present more opportunities to learn about, outreach, and cater to the needs of the community.** The bank's next area of focus is to work with local Hispanic businesses to help them with their unique funding needs and those of their employees. This will enable the bank to gain further traction and trust within the community and utilize another outlet to provide education and information.

About Citizens Union Bank of Shelbyville

Citizens Union Bank of Shelbyville is a \$764 million financial institution headquartered in Shelbyville, Kentucky, a community of 10,085. The institution presently operates from 20 offices in seven counties throughout the Commonwealth of Kentucky, and is currently constructing its 21st location in another county. Additionally, the bank operates 19 ATMs throughout its service area. The bank's primary lending focus is construction, home mortgage, and commercial.

Assets, \$Th, as of September 30, 2008: \$595,124

Ridgewood Savings Bank

Ridgewood Savings Bank's approach to serving unbanked and underbanked communities focuses on increasing access to banking services and conducting outreach and education. Since 2006, the bank has opened two branches in Bronx neighborhoods with significant populations of unbanked and underbanked residents. In May 2005, Ridgewood launched a full-service mobile branch that brings banking services to people and places that otherwise would not have them, such as assisted living facilities. In addition, the bank offers an array of educational programs targeting first-time homebuyers, low-income residents, and students.

*"Our decisions are driven by a mutual philosophy to do what is right for our customers and community."
– Edward F. O'Brien, Vice President and CRA Officer*

I. Target Population

Until mid-2006, Ridgewood Savings Bank had 23 branches, all located on geographic Long Island (Brooklyn, Queens, Nassau, and Suffolk counties). As a result of long-range strategic planning, increased lending, and business opportunities, the footprint of the bank has expanded as of early 2008. Specifically, the bank now has 36 branches spread among seven counties, including the additional Manhattan, Bronx, and Westchester branches.

These changes required the bank to be proactive in its efforts to address the underbanked and unbanked. Ridgewood has always been sensitive to diversity since their service area included ethnic communities of African, African-American, Chinese, Croatian, German, Hispanic, Italian, Polish, and Romanian, Russian and Serbian immigrants. In consideration of the aforementioned expansion, the bank broadened its innovative approach via the strategies and initiatives described below, paying special attention to the Bronx, whose residents are largely of low- to moderate-income and where many neighborhoods are underbanked or unbanked.

II. Initiatives

New York State Banking Development District (BDD) Program

In an effort to enhance service and access to unbanked/underbanked communities, Ridgewood Savings Bank participates in the New York State Banking Department's Banking Development District ("BDD") program. BDD designations are given to unbanked/underbanked communities with significant unemployment rates and a majority of Census tracts classified as low- to moderate-income. The objective of BDD branches is to bring banking services to these underserved areas and help banks effectively compete with alternative service providers as well as to provide avenues for unbanked individuals to enter the financial mainstream and stimulate long-term economic and community development. The New York State BDD designation provides participating banks throughout New York City with state and local incentives, allocating more than \$100 million in public funds deposits for new BDD branches, property tax reductions for the branches, and assistance in locating suitable commercial space.

Responding to this opportunity to serve unbanked and underbanked communities with support from local stakeholders such as the Borough President's Office and Community Boards, Ridgewood Savings Bank successfully applied for the BDD Initiative. As a result, Ridgewood Savings Bank received two of the three BDD designations granted in the Bronx service area and opened two branches. In September 2006, the bank opened its White Plains Road Branch, followed by its Soundview Branch in April 2007. The Bank continues to build upon its presence in the market and increase its customer base but notes that it faces a "challenging environment." These branches are located in a low- to moderate-income level area, which consequently results in low balances in checking and savings accounts. Nevertheless, Ridgewood Savings Bank emphasizes that it maintains a long-term commitment to developing its BDD branches and to serving these communities.

Mobile Banking Center

In May 2005, Ridgewood Savings Bank introduced a Mobile Banking Center to serve residents who are unable to access banking services due to mobility constraints or distance from brick-and-mortar branches. The Mobile Banking Center's motto, "*Bringing the Branch to You*," encapsulates its objectives and capabilities. Customers can open accounts and conduct transactions at the full service Mobile Banking Center, which is also equipped with an ATM. In order to offer a full range of products and services, the bank submitted a branch application with the FDIC and the New York State Banking Department for approval. As a result, the Mobile Banking Center is considered an official branch of Ridgewood Savings Bank and has \$3 million in deposits as of July 2008. The custom-built, handicap-accessible Mobile Banking Center currently visits 15 sites, mainly senior citizens' residences, on a bi-weekly basis. Visits by the Mobile Banking Center will vary from 90 to 120 minutes, depending on the amount of banking activity at each facility. Occasionally, a facility is selected due to the close proximity to a full-service branch and, therefore, many residents can continue to enjoy a banking relationship with Ridgewood by means of the Mobile Banking Center. Residents are made aware of the Mobile Banking Center's scheduled visits through weekly announcements made by the facility. The branch employs a full-time staff of one assistant manager and two savings counselors. While the Mobile Banking Center is not very profitable, bank management believes that the value delivered to the community justifies and validates the continued investment. Mobile branch employees note that customers appreciate having their "financial independence" and the ability to access the many banking services. As a result, the Mobile Banking Center staff has developed a strong relationship with the residents as well as the staff members of these facilities.

Financial Literacy and Outreach Programs

Beginning in 1999, Ridgewood Savings Bank has offered First Time Homebuyers' Workshops to help individuals make informed decisions regarding mortgages and home purchases. To market its workshops, the bank places advertisements in local community newspapers, inviting individuals to attend regardless of their banking relationship. The bank also provides free refreshments and giveaways to attract attendees. Each two-hour workshop includes presentations from an attorney on the legal aspects of home ownership, an engineer on home inspections, and a mortgage consultant on the application and qualification process. Workshops conclude with a question and answer session, and attendees receive informational booklets and bilingual materials created by Ridgewood Savings Bank. The Bank has conducted over 75 workshops, with an average of 35 attendees in low- to moderate-income communities and 15 attendees in more affluent neighborhoods.

Since 2005, Ridgewood Savings Bank has partnered with local elementary, middle, and high schools to educate students about personal finance and savings through the ABA Education Foundation's "Teach Children to Save Day." To date, these outreach efforts have reached 3,200 students in 27 public and private schools in the bank's service area. The bank has also implemented a banking program at a number of schools to teach students how to manage bank accounts and to encourage regular deposit and savings habits. Through this program, students can open a savings account with no minimum deposit. Teachers collect students' deposits on a periodic basis, and bank messengers transfer them to the local branch for deposit into student accounts. As of August 2008, Ridgewood Savings Bank maintains over 3,220 accounts through its school banking program, amounting to \$1.15 million. In addition, the bank has taken opportunities to conduct outreach sessions for parents. Leveraging its relationship with local schools, Ridgewood Savings Bank has conducted educational programs for parents during PTA meetings.

In 2008, the bank began a partnership with ARIVA, a Bronx-based nonprofit organization specializing in financial services and education for low-income residents. Ridgewood Savings Bank hosted ARIVA Free Tax Preparation Day at its two Bronx BDD branches. ARIVA provided IRS-certified tax preparation professionals to offer free services to Bronx residents earning annual income of \$45,000 or less. The bank assigned three employees at each location to develop rapport with attendees, cross-sell relevant banking products, and engage in subtle marketing for the bank. As a result of these events, ARIVA staff processed a total 80 tax returns amounting to \$120,000 in refunds. Encouraged by the program's success and the potential outreach opportunities, Ridgewood Savings Bank plans to offer ARIVA Free Tax Preparation Day in three or four branches in 2009.

Ridgewood Savings Bank also offers "Money Matters" workshops to the general public. During these one-hour educational sessions, branch employees present information on the benefits of deposit accounts in comparison to check cashing services, the importance of savings in reaching financial goals, account management, and information about obtaining a mortgage. Introduced in early 2008, the bank has conducted four workshops at branches located in low- to moderate- income areas, attracting an average of 25 attendees per session.

Multicultural Marketing

Ridgewood Savings Bank's branch locations span a diverse array of ethnic communities throughout the New York City metropolitan area, with significant populations of immigrant families in its service areas. In order to provide services for these non-English speaking communities, the bank creates in-language print ads for various local ethnic newspapers. Additionally, the bank has created Spanish radio and cable TV commercials which are broadcast on Spanish radio and cable TV stations. Telephone and ATM banking services, as well as its website, are also available in Spanish. The bank currently has employees who speak a total of eight foreign languages. However, changing demographic trends and greater emphasis on outreach to unbanked immigrants has resulted in the need for even more bilingual staff. In response, Ridgewood Savings Bank has modified requirements for new hiring at branches located in ethnic neighborhoods or areas with sizeable immigrant communities. Job applicants must speak the language of the predominant ethnic population in a particular branch's footprint. The bank cites these efforts as an integral part of its outreach and service to the unbanked and underbanked.

III. Lessons Learned

- **Opening branches in underserved communities improves access to banking services.** By establishing a physical presence in these neighborhoods, the bank has increased its visibility and convenience of providing products and services. The bank can demonstrate the benefits of establishing banking relationships in direct competition to alternative service providers in the branch's footprint.
- **Combining local and state initiatives with internal business strategies to reach underbanked populations can help banks establish relationships with unbanked individuals.** The bank's BDD branch designation is a critical component in its efforts to deliver beneficial banking services to underserved consumers and provide additional government resources and guidance that facilitate bank profitability and presence in these communities.
- **Maintaining ongoing dialogue with the community helps the bank assess and evaluate the effectiveness of its programs and offerings within each branch footprint.** The bank relies on its strong relationships with community organizations and neighborhood presence to identify each community's needs and to address them accordingly.
- **Flexibility to continually adapt to changing demographics is necessary in order to offer valuable and relevant services to its customers.** In a dynamic setting like the New York City metropolitan area, the ability to remain attuned and flexible to change helps the bank attract new groups of unbanked and underbanked individuals.

About Ridgewood Savings Bank

The largest mutual savings bank in New York State and the second largest in the nation, Ridgewood Savings Bank was established in 1921. Headquartered in Ridgewood New York, the bank operates 36 branches in Queens, Brooklyn, the Bronx, Manhattan, Nassau, Suffolk, and Westchester Counties. This network includes a Mobile Banking Center introduced in 2005 and 12 branches resulting from the acquisition of City and Suburban Federal Savings in July 2007. In addition, the bank operates a consumer loan center, two mortgage loan centers, and a retirement plan service center.

The bank offers a variety of consumer and commercial credit and deposit products, as well as financial services. Available loan products include one to four family residential mortgages, multi-family mortgages, cooperative loans, commercial real estate loans, home equity loans, and consumer loans. Examples of deposit account offerings include regular savings, club accounts, checking accounts, money market accounts, certificates of deposit, and individual retirement accounts. Other services include direct deposit and safe deposit box rental, as well as, the sale of travelers' checks, money orders, and United States Savings Bonds. The bank faces intense competition in its service area from many large money-center institutions, national and regional banks, savings and loan associations, credit unions and mortgage brokers.

Assets, \$Th, as of September 30, 2008: \$4,101,225

Second Federal Savings of Chicago

Headquartered in the South Side of Chicago, Second Federal targets the Mexican immigrant community. Second Federal was one of the first banking institutions in the United States to accept the Matrícula Consular card as a valid form of identification. In order to serve unbanked and underbanked populations, the bank provides money transfer and bill payment services to non-deposit customers. Second Federal also developed a remittance product based on a dual ATM card program.

“We are focused on understanding and serving the changing needs of our community; we have the ability to recognize when outside influences affect us and transition with them.” - Mark T. Doyle, CEO and Chair

I. Target Population

Understanding the Mexican Immigrant Population

In 1992, Second Federal’s management determined that there was an adequate business case for targeting its marketing efforts solely to the Mexican immigrant community, which now comprises its primary customer base. The bank closed two branches located in more affluent, less diverse neighborhoods and opened a new branch in the suburb of Cicero, which has a significant Mexican immigrant population that has increased from 40 percent Mexican to 80 percent since the branch’s opening.

In an effort to deepen its understanding of this segment, the bank engaged a research firm to study the changing demographics of the Chicago Metropolitan Area and consequently discovered that 48 percent of residents within its branch network were undocumented immigrants, and therefore unlikely to be banked. Through its knowledge and understanding of the market, Second Federal is more responsive to the needs of its community. As a result, free services such as money orders and utility bill payments have become principal offerings to bank customers.

In the past five years, bank employees have noted that the Mexican immigrant community has become increasingly aware of banking services and their value. The education and assimilation of second and third generation immigrants have contributed to the community’s increased understanding of and receptiveness to banking. Increased competition has also played a major role in driving this change. In a community of 175,000 residents, several larger banks have entered the market. These banks have undertaken initiatives to provide education, targeted marketing, and product offerings to the local Mexican immigrant population, thereby escalating the community’s level of sophistication toward banking services. In response, Second Federal has also begun to offer a broader range of services, including internet banking, interest bearing checking accounts, bill pay services, and credit cards, while continuing to cater to first generation immigrants and those who are still unbanked and underbanked.

II. Initiatives

Matrícula Consular

Obtaining a Matrícula Consular card is a top priority for undocumented individuals because it is a form of identification they can use to open deposit accounts and to obtain an Individual Taxpayer Identification Number (ITIN). Understanding the importance of the Matrícula Consular card to the community, Second Federal has built a strong relationship with the Consulate to facilitate the identification process and invites the Mexican Consul to its branch locations for the purpose of issuing Matrícula Consular cards.

Individual Taxpayer Identification Number (ITIN)

Second Federal has also registered with the IRS to become an ITIN acceptance agent. Customers who have an account at the bank can obtain an ITIN at bank branches free of charge. The Mexican immigrant community has responded positively to this initiative. Within the first year of offering this service, the bank opened nearly 600 bank accounts. Although, many clients already obtained ITIN numbers, the vast majority were a result of the acceptance agreement with the IRS. These customers have since become part of Second Federal's regular customer base. The program's success garnered attention in the wider banking community, and Second Federal participated in the Federal Reserve Bank of Chicago's monthly seminars to inform other banks about ways to reach out to the unbanked population.

Extended Hours

Second Federal's locations are open seven days a week. Through the addition of walk-up and drive-thru operations at its facilities, the bank serves customers until 7:00 p.m. Monday through Thursday, 8:00 p.m. on Friday, 4:00 p.m. on Saturday and 2:00 p.m. on Sunday. The extended business hours accommodate customers who cash payroll checks on Friday evenings and Saturday, when volumes tend to be highest. Although the bank's extended hours cater to customer banking preferences, it has not differentiated Second Federal in its service area because many of its competitors are also open every day of the week.

Dual ATM Card Program

In 2001, Second Federal introduced a lower cost method to send money to Mexico and other countries through the use of dual ATM cards, believed to be the first program of its kind in the United States. Customers can send one ATM card to relatives in their home country, which enable them to withdraw funds directly from the account and eliminate the need to use wire transfers. Second Federal's fee ranges from \$1.50 to \$2.00, substantially lower than the \$20 to \$30 typically charged by alternative providers.

Check Cashing

Although Second Federal offers check cashing for individuals without account relationships, the bank recognized that many residents in the community prefer to cash their checks at local businesses, such as grocery stores. Second Federal has begun to receive more business from small businesses and is now registering them as money service businesses, with the bank accepting double endorsed checks.

ITIN Loans

Second Federal began to aggressively market ITIN loans in the first quarter of 2004. At that time, private mortgage insurers would not provide coverage for this product. Moreover, there was not a secondary market available to buy them. The bank believed, however, that the market was composed of creditworthy borrowers. When the bank first added ITIN loans to its portfolio, it faced a number of challenges. First, they needed to design the program and underwrite the loan, which required six hours per loan. Second, the product was so well-received by the community that the number of loan applications overwhelmed the bank. With over \$40 million in its pipeline for applications, the bank was unable to handle the volume. Finally, the rapid growth of product originations and corresponding regulatory scrutiny necessitated discussions between the bank and its regulator with regard to the purpose and direction of the product. The bank's ability to resolve these issues allows them to continue offering ITIN lending today, which currently totals \$70 million in its portfolio. However, because of factors relating to the uncertainty of immigration reform, as well as economic factors, delinquencies are expected to become a major concern. As unemployment rises, many undocumented borrowers may be unable to keep their mortgages current. This market is not insulated from the many problems in today's economy.

Education and Outreach

In addition to outreach efforts to non-English speakers and first generation immigrants, the bank has also begun focusing on the large and emerging second generation, who tend to be bilingual and have a better grasp of banking concepts. Targeting this more educated and more assimilated generation has become an important part of the bank's outreach efforts, as it represents a market for which the bank wants to develop products and services that will bring immigrants into the banking mainstream.

While their parents and grandparents may come from a culture where a very large percentage of the population is unbanked and not familiar with basic banking concepts, the second and third generations are more likely to be accustomed to the idea that finances should be handled through bank accounts and hence to ultimately become part of the banking mainstream. Furthermore, the younger generation's access to and skills in using technology create more avenues to utilize banking products and services. Adapting to the community's increased gentrification and technology savvy, the bank has worked with community groups to develop a Spanish-language curriculum for teaching individuals to use internet banking services. The evolution of education and outreach programs is driven by Second Federal's larger goal to offer the types of services and products needed by the community.

Regulatory Challenges

Second Federal determined that for their market a crucial part in understanding their customer base was recognizing that the unbanked and the undocumented were virtually the same. As a result of local municipalities passing their own immigration regulations, the bank reports that many immigrants have become reluctant to save money in banks and use banking services.

III. Lessons Learned

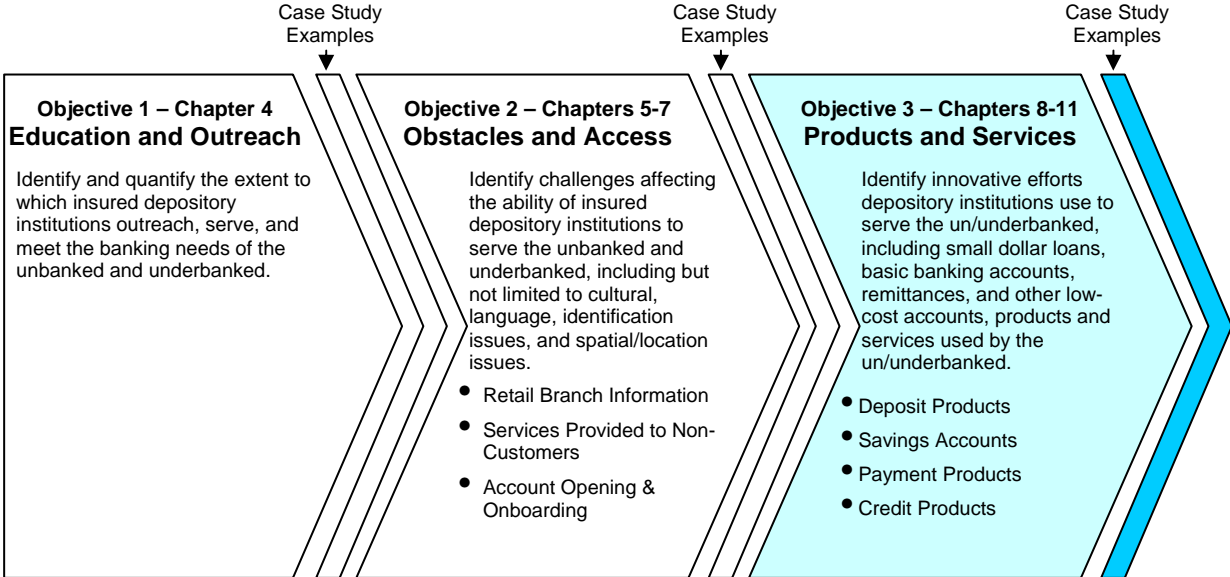
- **The first and most important step in serving the unbanked and underbanked is to understand the needs of your market.** For Second Federal Savings, hiring a research firm to study its market area provided valuable insight that informed the types of products and services that should be offered.
- **Recognize changes and obstacles in your market and address them accordingly.** Shifting demographics as well as external factors (e.g., economic, state, and federal regulations, competition) can dramatically change the marketplace and affect a bank's ability to serve its community. The ability to remain cognizant, flexible, and innovative enables banks to effectively modify their focus and better serve their communities.
- **A major part of Second Federal's success has been its efforts to assist the broad range of unbanked immigrants who want to have a banking relationship.** For Mexican immigrants, obtaining the Matrícula Consular card and ITIN is a crucial step in the path to becoming banked. The bank's willingness to facilitate the issuance of these important forms of identification on-site at no charge and to accept them as sufficient identification for new account opening removes significant obstacles for the unbanked.

About Second Federal Savings of Chicago

Second Federal Savings is a \$256 million financial institution with five offices and seven ATMs located in Chicago. It has served the financial needs of its local communities for the past 125 years, and the Mexican immigrant population since their arrival in the late 1960s. In 1992, the bank officially decided to market its services solely to the immigrant population, both documented and undocumented.

Assets, \$Th, as of September 30, 2008: \$258,896

Banks' Efforts to Provide Products and Services



Products and Services

Five case study banks offer innovative transaction products, credit, and asset-building products that meet the needs of unbanked individuals and serve as a mechanism for entering the economic mainstream.

| Institution | Target Population | Products |
|--|--|---|
| Artisans' Bank (Wilmington, DE) | Low- to moderate-income individuals in their area with poor credit history or past experience with financial mismanagement | <ul style="list-style-type: none"> ▪ Credit Builder Program provides a 12-month loan while customers place proceeds in deposit account held as collateral and replay loan from cash flow. ▪ Delawareans Save IDA helps customers set and achieve monthly savings goals over three-year period and provide up to a 3:1 match if savings targets are met. |
| Bancorp South (Tupelo, MS) | African American and Hispanic American communities of urban and rural markets in the South | <ul style="list-style-type: none"> ▪ Second Chance Checking restricts access (check writing and debit cards) for customers ineligible for standard checking product. ▪ Smart Saver IDA combines a mortgage and a savings product with eight hours of financial education to provide resources toward purchase of home. |
| Carver State Bank (Savannah, GA) | Multi-cultural community in Savannah, including African Americans, Hispanics, Iranians, and Chinese | <ul style="list-style-type: none"> ▪ Small Business IDA provides 4:1 match to local entrepreneurs and requires applicants to take classes and develop business plan to qualify. ▪ Credit Rebuilder Loan pairs loan of \$1,000 to \$10,000 with CD; approval based on debt to income ratio rather than credit history. |
| Central Bank of Kansas City (Kansas City, MO) | Diverse immigrant and minority population, including African Americans, Vietnamese, Sudanese, and Mexicans | <ul style="list-style-type: none"> ▪ Payroll Cards allow low- to moderate-income employees to receive income without needing to cash checks or access to direct deposit while preventing them from overdrawing on account and incurring NSF or merchant fees. |
| KeyBank (Cleveland, OH) | Low- to moderate-income populations, including African Americans, Hispanic Americans, working poor, and urban residents | <ul style="list-style-type: none"> ▪ Low-cost (1.5 percent up to \$22.50) check cashing services for non-depository clients bring unbanked into branches and create opportunities to transition them to deposit accounts; biometric technology verifies customer identity, lowering cost and increasing efficiency. |
| Common Lessons Learned | | |
| <ul style="list-style-type: none"> ▪ Entry-level products provide valuable opportunities for unbanked individuals to re-establish credit-worthiness and re-enter the economic mainstream while increasing control and reducing risk to banks. ▪ Rather than closing accounts due to mismanagement, second chance accounts help banks retain existing customers. ▪ The advantages of beneficial and relevant banking products, when compared to alternative service providers, pose an important value proposition for unbanked individuals. ▪ Banks can better serve unbanked and underbanked consumers by developing debit card-based accounts and prepaid cards to meet their needs. | | |

Artisans' Bank

Artisans' Bank offers a Credit Builders Program targeted to low- and moderate-income borrowers with less than perfect credit. The proceeds of a small dollar loan are deposited into an Artisans' Bank savings account, which serves as the collateral. Artisans' Bank also offers free checking accounts and individual development accounts for low- and moderate-income consumers. In 2003, the bank started a "branch" at an elementary school where fourth graders learn about savings and make weekly deposits. Artisans' Bank is also active in providing financial education through its partnerships with the City of Wilmington and the Delaware Money School.

"We take a hard look at what we can do to make a difference in our community; even though we lack the ability as a small bank to say 'yes' to every request that comes our way." – Joel Schiller, CRA Officer

I. Target Population

Artisans' Bank does not engage in targeted marketing and direct outreach to the unbanked and underbanked. Instead, the bank promotes its innovative products and services through partnerships with community organizations and assistance agencies, such as the YWCA of Delaware, Boys and Girls Clubs, and the Delaware CRA Council, that serve the unbanked and underbanked populations. Artisans' Bank provides general banking information and personnel support on financial education and banking products to the organizations, which refer potential clients to the bank. This partnership model enables Artisans' Bank to develop relevant products while utilizing community organizations' deep relationships and experience with the target population to effectively educate and outreach to unbanked and underbanked individuals.

II. Initiatives

Credit Builder Program

Artisans' Bank designed a **Credit Builder Program** for potential homebuyers needing assistance to become creditworthy. The **Credit Builder Program** enables individuals to build savings and accumulate funds to meet down payment or settlement cost responsibilities. Artisans' Bank funds a 12-month loan between \$500 and \$2,000 and places the proceeds in a deposit account, which is held as collateral. Customers repay the loans on a monthly basis from their cash flow. Interest is fixed at a flat 9 percent rate, and the bank waives all other fees. By making loan payments to their savings account, customers develop a routine of saving. At the end of the year, customers receive their deposit principal plus accrued interest earned on the deposit account. To date, Artisans' Bank has not reported any defaults on **Credit Builder Program** accounts.

When the product matures and the loan is paid off, customers are encouraged to maintain their banking relationship and continue building assets through regular savings habits. Branch personnel make the effort to contact each **Credit Builder Program** customer individually by letter or by phone. In most cases, the bank has found that spending a few minutes with customers to inform them of both the opportunities and benefits of continuing their banking relationship has been successful in retaining customers.

Artisans' Bank does not market its **Credit Builder Program** directly to the public. Instead, the bank promotes the product through community organizations and social service agencies that work with financially challenged individuals. The bank provides information to the organizations about the products and services available to the unbanked and underbanked and leverages these relationships to receive referrals for potential customers. For example, **Credit Builder Program's** initial customers were individuals who were working toward first-time home ownership and were referred by housing counseling agencies in the community. The bank also encourages agencies to establish and maintain mentoring relationships and to educate their clientele about fiscal responsibility and the importance of saving. Strong relationships with community agencies have helped Artisans' Bank outreach to the unbanked and underbanked, and as a result, the **Credit Builder Program** product has been well-received, averaging 25 to 50 accounts per year.

Artisans' Bank credits the product's success to three main factors. First, customers are required to become educated on **Credit Builder Program** before opening an account. Second, community agencies play a crucial role in referring clients whom they deem to have the potential to use the product successfully. Third, the bank recently shifted its focus to giving customers with no credit or severely damaged credit the opportunity to establish or restore a more positive record on their consumer report. **Credit Builder Program** provides customers who intend to return to the banking mainstream an opportunity to re-establish disciplined and structured banking habits.

SEED Accounts

In a partnership with a local inner-city Boys and Girls Club, Artisans' Bank sponsors a youth savings program, called the **SEED Initiative** (Saving for Education, Entrepreneurship, and Development). Led by the Corporation for Economic Development (CFED), the Center for Social Development at Washington University in St. Louis, the Initiative on Financial Security of the Aspen Institute, the New America Foundation, and the University of Kansas School of Social Welfare, the program began as a national pilot program operated by the Boys and Girls' Club with an investment banking house. When that institution found the program to be too burdensome to continue, Artisans' Bank assumed administrative responsibilities for the accounts in 2006, accepting and housing the 65 youth accounts in the program. Similar to an IDA, **SEED Accounts** are deposit accounts geared to middle school students that encourage regular deposits and restrict withdrawals. Upon reaching the age of 18, the students will receive matching funds of deposits made over the course of their school years. The SEED Initiative is funded by the Ford Foundation, the Schwab Foundation, and nine other foundations.

Delawareans Save IDA

Through the **Delawareans Save** IDA initiative, Artisans' Bank will process over \$1.5 million of public and private sector money in matching funds to low- and moderate-income savers who have participated in this structured asset-building savings program conducted by the First State Community Loan Fund. Previously offered by the bank in conjunction with the YWCA, the **Delawareans Save** initiative involves consumers who agree to participate in financial literacy classes, save between \$1,500 and \$3,000 over a three-year period, make monthly deposits, and refrain from withdrawing money unless for emergencies, which require dual authorization from local agency and bank personnel. Many of the product's customers are minorities based in urban settings, including single parents.

If customers achieve their pre-established savings goal, they receive additional funding at the end of three years, up to a 3:1 match. Thus, customers have an additional incentive to save on a monthly basis. If customers fail to save monthly, they are removed from the program. **Delawareans Save IDA** has been met with great success, and the bank has received three more rounds of government funding due to the volume of account openings. Now in its fourth IDA round, the program has served over 1,000 consumers.

The bank has also created a parallel savings account for IDA customers. This enables IDA customers to deposit into a savings account other than their IDA. In emergency situations, customers can obtain funds by tapping their parallel savings account instead of withdrawing money from their IDA and thereby violating the terms of the **Delawareans Save IDA** program.

Education and Outreach

Like other small community banks, Artisans' Bank faces the challenge of not having a full-time CRA officer and limited internal resources to devote to market their CRA programs or perform consumer education. The bank recognizes the value and importance of education to the unbanked and underbanked community. Education and literacy programs provide the understanding and guidance that individuals need to properly handle the responsibilities of having a bank account and avoid fraud or mismanagement.

Educational sessions are generally one-on-one. Employees involved in the retail and account-opening side of the bank, such as Customer Service Representatives or Managers, usually conduct the sessions and generally use materials created by other banking or community organizations.

Artisans' Bank relies on partnerships with third-party organizations in its education and outreach efforts, working with community agencies on different programs and local savings incentives such as the Delaware Financial Literacy Institute. To maximize the impact of these programs, the bank stresses the effectiveness of educational sessions held on a recurring basis, much like a school curriculum, rather than a single two-hour class. Repetition and reinforcement of knowledge over the course of many months and meetings increases the likelihood of raising awareness, and the bank actively seeks to partner with agencies that already have these types of programs in place.

III. Lessons Learned

- **Offering education in a series of classes, rather than as a single session, is a more successful and effective approach to promoting financial literacy.** Reinforcing information improves individuals' ability to retain and apply it to financial decision-making.
- **Incorporating education into targeted products for the unbanked and underbanked improves their potential for success.** The bank requires an educational component to its loan and IDA products because education equips customers with the knowledge and discipline to responsibly handle products and to re-enter the banking mainstream.

- **Partnerships with other community organizations toward a common objective can supplement and complement bank initiatives to outreach and serve the community.**

Community agencies interact regularly with potential customers and become a valuable source for insight into the needs of the community. They can also be an important partner in education programs and provide referrals for tailored products offered by the bank.

About Artisans' Bank

Artisans' Bank is a mutually owned, full-service commercial bank. The bank is headquartered in Wilmington, New Castle County, Delaware. As of December 31, 2007, Artisans' Bank's assets totaled \$592.4 million. The bank currently operates 13 branch locations in Delaware; nine branches, including the main office branch, are located in New Castle County, two branches are located in Kent County, and two branches are located in Sussex County. The bank also operates three loan production offices, with one in each county.

Assets, \$Th, as of September 30, 2008: \$596,298

BancorpSouth

Outreach and financial education are at the core of BancorpSouth's efforts to serve the local unbanked and underbanked population, with programs conducted in and tailored to each market. The bank also offers a Second Chance Checking product designed to assist people who have struggled with successfully maintaining a checking account in the past, affordable mortgage products targeted to customers with blemished credit, and free tax preparation at VITA sites. The bank employs bilingual, Spanish-speaking staff at branches located in areas with a sizable Spanish-speaking population.

*"We're a community bank, and we're very much focused on the communities that we're in. That's how we make a name for ourselves and carry out education programs."
- Monica Aldridge, First Vice President*

I. Target Population

BancorpSouth focuses marketing and outreach efforts to urban, rural, African-American, and Hispanic-American segments in its service areas. The Hispanic population, in particular, has become an important demographic for the bank due to the growth of this community and its heavy concentration of unbanked and underbanked individuals. Within these population segments, BancorpSouth targets unbanked and underbanked adults with ties to community organizations, as most outreach efforts are conducted in partnership with and at the site of local nonprofit organizations, government assistance agencies, and adult education centers.

II. Initiatives

Education and Outreach

BancorpSouth reports that it has been carrying out extensive outreach programs in its community since 1993. The bank states that it "desires to help the unbanked and underbanked obtain credit and become better banking citizens," and basic financial education serves as the crucial first step in this process. Bank employees observe that many of these individuals do not use banks for their financial transactions because they are not aware of the products and services available to them. They do not know that banks offer more than just checking and savings accounts but also insurance, mortgages, and other loans. Bridging this information gap has become a primary focus in the bank's efforts to bring the unbanked and underbanked into the economic mainstream.

The bank's education and outreach program began as a way to help first-time homebuyers attain the financial literacy certification required for some loan applications in BancorpSouth's markets. By partnering with local governments and nonprofit organizations, the bank created an educational program that enabled people to successfully secure funds to purchase a home.

Today, each of BancorpSouth's main offices conducts at least two education programs annually, with many exceeding this minimum. More than 680 financial education programs reaching more than 40,000 individuals were conducted from September 2007 to June 2008. While the needs of each community within the institution's service area vary, efforts usually focus on K-12 schools and adult education programs. Hundreds of employees across the organization are involved with education programs, with at least one employee working on these initiatives at each location.

Because the FDIC's Money Smart curriculum is written at a level that can be understood by a wide range of audiences and is readily accessible to banks, BancorpSouth uses the curriculum universally as the foundation of its educational programs for middle school and high school students as well as for adults. The bank's own brochures, which are distributed as financial education materials, can also be used by audiences of varying ages and reading levels. The educational brochures detail products available to the unbanked and underbanked and also cover topics such as identity theft, fraud alerts, and online fraud. To serve the Spanish-speaking community, the bank also offers 11 Spanish-language educational brochures that provide information on checking and savings accounts, mortgage loans, bank fees, and other subjects.

The bank asks all main locations to offer at least one education session focusing on home ownership in order to educate community members about down payment assistance and the bank's IDA product. However, local branches also have flexibility to develop and conduct additional sessions on other topics, such as checking, savings, and identity theft prevention.

BancorpSouth reports that a major key to its success in reaching out to adults has been the decision to hold more programs outside of bank branches. The bank has found that branch-based programs attract very few attendees, if any. Branch employees note that this is likely due to apprehension toward bank facilities felt by unbanked and underbanked individuals. By relocating education programs to churches and community centers, bank employees have experienced greater receptiveness and found more opportunities to educate the unbanked and underbanked. Typical outreach programs average 20 attendees, with some attracting nearly 400 people.

Branch personnel coordinate with local pastors, work with the community's Head Start Center to reach out to parents, collaborate with the Department of Human Services to identify people on temporary or welfare assistance, or partner with nonprofit organizations like Habitat for Humanity to introduce home ownership programs and other banking products and services to clients. Most programs include refreshments to accommodate attendees coming after work and offer door prizes, which can be helpful for encouraging attendance.

Recently, the bank has begun working with employers to bring financial education to the workplace. During bank-sponsored lunches, branch personnel provide valuable information on topics for employees, such as investment and 401(k) plans, in a convenient time and place. These lunchtime sessions typically last 30 to 45 minutes and are held on a monthly or quarterly basis. Employers do not need to be business customers of BancorpSouth to arrange employee education sessions. The bank also works with local government groups, such as the police and fire departments, to offer similar educational programs.

For youth outreach, branches work with local schools to organize “Teach Children to Save Day” and utilize a variety of materials from the American Bankers Association, National Jump\$tart’s “Personal Finance Curriculum,” and Bank of America’s “Financial Fitness for Life.” Branch personnel may take the initiative to design more creative programs, using puppet shows, stories incorporating the Berenstain Bears, or skits starring the employees. BancorpSouth cites its long-standing relationship with local schools as an integral part of their success, since it enables branches to easily contact teachers and organize educational visits.

Although the bank lacks a formal tracking system to measure the results of its outreach efforts, employees observe a general correlation to the bank’s success in customer acquisition, which further motivates their efforts to deliver value and benefit to the community. Furthermore, BancorpSouth cites that financial education and outreach allows the bank to make direct contact with potential customers and inform unbanked individuals of what BancorpSouth can offer them. These efforts play an integral role in expanding the bank’s customer base and, therefore, its business.

Second Chance Checking

In January 2007, BancorpSouth introduced a transitional checking product, **Second Chance Checking**, which sought to address the needs of a segment of the population that had mismanaged checking accounts in the past but wanted to return to the banking mainstream.

When Customer Service Representatives find that a potential customer is ineligible for a standard checking account, they offer **Second Chance Checking** as a way to facilitate moving back into a regular checking product. Typically, **Second Chance Checking** customers have ChexSystems screenings that are not high enough to qualify for the bank’s standard checking product but have not had fraud, closures, or negative history in the past three years. For a \$6.99 monthly fee, the product allows customers to write checks and use debit cards. After one year, **Second Chance Checking** customers with good history are eligible for a standard free checking account. As of December 31, 2007, the bank reported 1,537 **Second Chance Checking** accounts, with most customers transitioning to regular checking after one year.

Loan Programs

On the credit side, BancorpSouth helps unbanked and underbanked individuals borrow needed funds for home purchases through a combination of loans, counseling, and financial education. Once a customer is pre-approved for a home purchase loan, the bank will offer income-qualified customers the opportunity to also open a **Smart Saver Individual Development Account (IDA)**, which is similar to a money market account. In addition to combining mortgage products with a savings product, the program also includes eight hours of financial education to ensure that customers understand how to handle the products. While there are restrictions tied to the account to discourage early withdrawal of funds, the account proves to be a useful tool in assisting customers with reaching their savings goals. A five-year deed restriction, which is a condition of receiving matching funds under the Smart Saver program, encourages customers to focus on long-term wealth building.

Not only are customers eased back into the banking mainstream through improved awareness and responsibility, they also receive funds toward the purchase of a home. To further encourage customers to save and to make progress toward achieving their goals under the Smart Saver IDA, the bank offers a 3:1 match toward a home purchase to be used for down payment and/or closing costs once customers save \$1,000 in 12 months. In 2007, ten customers participated in the loan program, and BancorpSouth has already exceeded this number through the first half of 2008.

In addition, the loan program can be used in conjunction with the Federal Home Loan Bank HELP grant program in which a first-time homebuyer agrees to education and a five-year deed restriction. Customers applying for Federal Home Loan Bank HELP grant money can qualify for up to an additional \$7,000 toward their down payment and closing costs. As of June 2008, the bank has already awarded all of the Federal Home Loan's \$60,000 allocation. (For 2008, Federal Home Loan Bank of Dallas allocated \$60,000 to each Member Bank for HELP grant funding.) In some areas, customers can pair BancorpSouth's products with state programs to secure more funds. In total, some homebuyers can potentially receive over \$20,000 toward the purchase and closing of their new home.

III. Lessons Learned

- **Unbanked and underbanked individuals do not use banking services because they are often unaware of what is available, and relying solely on marketing efforts often fails to address their needs.** These individuals comprise an entire segment of the population that needs financial literacy training in order to make informed decisions. Targeted educational sessions best inform the unbanked and underbanked of what banks can offer them.
- **Partnering with other community organizations and conducting outreach visits help lay the groundwork for providing financial education programs and building trust within the community.** Hosting education sessions in a comfortable and familiar environment outside of the branch is the best way to encourage attendance and interaction between the attendees and bank employees.
- **Targeted entry-level products provide opportunities for unbanked and underbanked customers to develop sound financial management practices and transition into the economic mainstream.** The bank offers an array of deposit accounts, loans, and asset-building products that encourage and enable unbanked customers to achieve their financial goals.

About BancorpSouth

BancorpSouth, Inc. is a financial holding company headquartered in Tupelo, Mississippi, with approximately \$13.3 billion in assets. BancorpSouth Bank, a wholly-owned subsidiary of BancorpSouth, Inc., operates approximately 300 commercial banking, mortgage, insurance, trust, and broker/dealer locations in Alabama, Arkansas, Florida, Louisiana, Mississippi, Missouri, Tennessee, and Texas. BancorpSouth Bank also operates an insurance location in Illinois.

Assets, \$Th, as of September 30, 2008: \$13,293,708

Carver State Bank

Carver State Bank targets the unbanked and underbanked population in the Savannah, Georgia, area with active outreach, second chance checking products, a credit rebuilder program, first-time homebuyers' seminars and individual development accounts.

"We pride ourselves on building personal relationships with our customers and build our outreach around this philosophy. Our motto is, 'Money matters, but people really count.'"

- Claudia Clarke, Vice President and Senior Lending Officer

I. Target Population

Carver State Bank's main office is one of only two commercial banking facilities located in one of Savannah's three low-income Census tracts. This ultra modern banking facility is in an inner-city area near downtown Savannah, and serves primarily an African-American population. There are two large HUD-sponsored housing projects bordering this banking facility to the south and west. Even so, the demographic, social, and economic makeup of the community primarily on the north and east has changed in recent years, as the town has undergone gentrification. On December 11, 2007, the bank opened a branch in a diverse, multi-cultural neighborhood, which includes African Americans, Caucasians, Hispanics, Iranians, Chinese, and retirees. Carver State Bank is currently developing outreach programs targeting this new multi-cultural market and plans to hire multilingual staff.

II. Initiatives

Community Involvement and Outreach

As a locally owned bank, Carver State Bank notes its strong ties to the community. Board members are long-time residents of Savannah, and the bank has worked closely with city officials to determine how to serve the community. For example, one of the mayor's goals is to encourage more unbanked individuals to use financial services provided by banks rather than check cashers and other alternative service providers, a goal that aligns with Carver State Bank's continuing initiatives. The bank's President is currently serving as Treasurer of Savannah's nationally acclaimed Step Up Poverty Reduction Program.

Within the community, the bank conducts outreach and provides basic banking education as part of economic uplift and training programs sponsored by local government, nonprofit organizations, and faith-based groups. The bank reports that these efforts have been successful in encouraging attendees to open accounts at Carver State Bank. Outreach efforts also include working with first-year students of Savannah State University and students at a local elementary school to improve financial literacy and awareness. The bank also actively promotes the personalized service it can provide to customers, especially senior citizens.

Fresh Start Program

To help ex-convicts re-integrate themselves into mainstream society, Carver State Bank partners with Savannah Impact to teach basic banking and financial management classes based on the FDIC Money Smart curriculum. Topics include opening and maintaining deposit accounts, managing credit, and budgeting. These classes are part of the financial education component of Savannah Impact's **Fresh Start Program**, which provides ex-convicts with a wide range of educational courses upon their release. Additionally, the bank recently helped the Old Savannah City Mission receive a \$250,000 award from the Federal Home Loan Bank to assist with the housing of the students who participate in the Mission's program designed to help ex-offenders become productive members of society.

First-Time Homebuyers Program

Carver State Bank's **First-Time Homebuyers Program** is offered through partnerships with the city government and neighborhood improvement agencies and provides assistance of up to \$8,000 for individuals who qualify. Informational seminars are provided on a quarterly basis in the lobby of the bank's main office. The sessions typically reach capacity of 125 attendees. Carver State Bank markets the **First-Time Homebuyers Program** and seminar through advertisements in local newspapers. However, bank employees also cite Carver State Bank's reputation in the community as a reason for the program's success.

Small Business IDA

For start-up and small businesses, Carver State Bank offers Individual Development Accounts to local entrepreneurs. These IDAs are a joint effort between the bank, Economic Opportunity Authority, and the Savannah city government, which matches each participant's savings at a 4:1 ratio up to a maximum of \$4,000 per person. In order to qualify for the account, customers must take a series of classes and develop a business plan. The IDA is held at Carver State Bank, and the city provides matching funds when the IDA matures based on the amount saved over the course of the account.

Second Chance Accounts

Account-opening procedures at Carver State Bank include ChexSystems references, but individuals with a prior history of closure can qualify for a **Second Chance Account** at the discretion of the Customer Service Representative or Branch Manager. The **Second Chance Account** provides the same services and access available through a regular checking account product, but with additional monitoring by bank employees to ensure proper management and use. To facilitate this process, these accounts are opened with a special numbering system that allows bank employees to distinguish the accounts easily. However, individuals outside of the bank are not able to use the checks to identify these customers. The Carver State Bank customer service representatives provide one-on-one training on how to use the account, avoid overdraft and NSF fees, and all of the negative consequences of mismanaging the account. Since Carver introduced its **Second Chance Account** in September 2003, the bank reports that almost 70 percent of these accounts are still open.

Credit Rebuilder Loan

Another product offered to unbanked and underbanked customers is the **Credit Rebuilder Loan**, which the bank cites as one approach to transition these individuals from alternative service providers, such as payday lenders, to financial institutions. The **Credit Rebuilder Loan** deposits funds from the loan into a Certificate of Deposit (CD), which is used as collateral. The interest rates for both products are priced at the current CD rate plus 3 percent. The loan can range from \$1,000 to \$10,000, and approval is based on the individual's ability to repay the loan (i.e., debt to income ratio) rather than credit history or credit score. Customers can access the funds once the CD matures, which can range from one to five years. In many instances, the **Credit Rebuilder Loan** customers use the savings as a stepping stone to home ownership by using the savings as a down payment for a mortgage or to cover home furnishing and other move-in costs. Furthermore, since the loans are secured by cash, Carver State Bank limits its risk of incurring a major loss if the customer fails to repay the loan.

III. Lessons Learned

- **Developing a strong community presence through different outreach strategies enables the bank to attract unbanked individuals.** Through its partnerships with local government agencies, nonprofit organizations, and community and faith-based groups, the bank positions itself as a trusted member of the community that serves the interest of its market.
- **Working with unbanked and underbanked customers requires devoting a significant amount of time and labor to counseling, assisting, and training customers.** Carver State Bank emphasizes its focus on creating personal relationships with its customers, which helps them feel more comfortable in a traditional banking environment. The bank found that unbanked customers often prefer speaking to a bank employee in person or by phone rather than using online or automated phone services, even for routine inquiries.
- **Emphasizing the advantages of developing a customer relationship with a financial institution instead of using alternative service providers is an important value proposition for unbanked and underbanked individuals.** The bank trains its employees to encourage account-opening so that customers can avoid the high fees charged by check cashing businesses. The bank's new branch is directly across the street from two check cashing facilities, and the branch staff has already been able to convince many individuals of the advantages of opening accounts and using the bank instead of the more costly check cashing services.

About Carver State Bank

Carver State Bank opened in 1927 as a private bank for a small African-American community in Savannah. The bank is located in Chatham County, which contains the City of Savannah, and is predominantly urban. All 13 low-income Census tracts that the bank serves are located in or near downtown Savannah. Currently, Carver State Bank operates one full-service location and three ATMs: one ATM is located at its main office; one at the branch; and the other is located at the Savannah/Hilton Head International Airport. Carver State Bank reports that approximately 16 percent of its current deposit account customers were previously unbanked.

Assets, \$Th, as of September 30, 2008: \$40,750

Central Bank of Kansas City

Central Bank of Kansas City (CBKC) is a Community Development Financial Institution (CDFI) that works to develop products to serve the unbanked and underserved. Despite struggling in the past, CBKC remains committed to achieving its goal of developing programs that resonate with and deliver value to the community. As a result, the bank has created more effective approaches, including its payroll card program for low-income employees and participation in wider community events for educational outreach, informed by past experiences and continued insight into its dynamic market.

“You better make sure you know your market and who you are serving.” – Bill Dana, CEO

I. Target Population

Serving a Diverse Immigrant Population

When the bank was founded in 1951, it served the local Italian community, but since then, the demographic make-up of its market area has changed significantly. As one of the oldest suburban communities in its region, the immigrant and minority population has steadily grown and currently boasts a demographic mix that includes African Americans, Vietnamese, Sudanese, Somalians, and Mexicans. In response to the recent influx of Mexican immigrants, the bank hired eight Spanish-speaking tellers in its lobby as well as Spanish-speaking employees in its New Accounts and Loans departments. The diversity of cultures in CBKC’s community presents challenges in developing effective marketing approaches, as the bank continues to target and outreach to the variety of members in its community.

II. Initiatives

In response to the changing demographics of its market, CBKC has taken a number of approaches to serving unbanked individuals, including innovative product offerings and branch configuration strategies, and the bank continues to refine its programs, which have achieved varying degrees of success.

Hispanic-Focused Branch and Offerings

One of the bank’s initial efforts was to serve the growing Hispanic immigrant and Hispanic-American community. In 2003, CBKC opened a Hispanic-focused branch and launched a multi-product approach for transitioning this segment of unbanked individuals into the banking mainstream. The bank envisioned offering a prepaid card product with remittance functionalities that would form the foundation for establishing a deeper banking relationship. The bank anticipated that the prepaid card would meet immediate financial needs—accessing funds and transferring money to relatives quickly and affordably—while connecting customers with the banking system. Once customers felt comfortable with the institution, the bank could then promote deposit accounts and credit products. Despite this methodical approach, transaction volumes and adoption of prepaid cards did not meet the bank’s expectations, limiting customer acquisition at the branch. The bank decided to close its Hispanic-focused branch and realigned its strategy by focusing on products and outreach to the unbanked community.

From its prepaid card product experience, CBKC has gained insight about the needs and behaviors of the Hispanic customer segments and has utilized this knowledge to improve subsequent offerings and initiatives. Cultural and social barriers, in particular, presented unforeseen challenges that the bank needed to address. Specifically, the bank had not anticipated the multiple sub-segments within the Hispanic community, which require identifying and responding to generational needs and ethnic nuances represented in the market. For example, the use of financial services differs greatly between first and second generation immigrants. Among first generation immigrants, mistrust of financial institutions, concerns around documentation, and financial dependence of family in their native country influence decisions about financial services and providers. In comparison, the second generation tends to be more acculturated and knowledgeable about banking services. CBKC currently applies this understanding about the diversity and complexity of the Hispanic community to provide more effective marketing and product development.

Payroll Cards

The bank successfully leveraged the knowledge gained from the initial prepaid card product offering into a new payroll card program, which was introduced in March 2007. This refined approach of reaching unbanked individuals at the workplace resulted from the bank's joint efforts with employers to set up payroll accounts for low- to moderate-income employees. Although the program is fairly new, its initial success has been encouraging and has maintained a steady pace, which allows the bank to accurately predict volumes and transaction. As of September 2008, the bank has issued 1,500 payroll cards.

In the bank's payroll card program, employers become the de facto card distributor. Currently, payroll cards are distributed at 34 employer sites, with an average of 44 employees participating per site. Issuing and then reloading cards rather than issuing paychecks benefits employers, since they do not need to write weekly checks for unbanked employees who do not have access to direct deposit. For consumers, these payroll cards provide the major advantage of preventing individuals from overdrawing on their account. If a customer uses the payroll card at the point-of-sale, they do not get charged NSF fees or merchant fees. For the bank, offering payroll cards necessarily increases card volume, but because the bank does not charge any initiation or transaction fees to generate revenue, the bank faces concerns with regard to the program's profitability and viability.

Education and Outreach

CBKC believes that education is a key component to helping the unbanked community, providing the requisite discipline, knowledge, and wherewithal to use banking products wisely. Although the bank has sought to increase its reach by providing educational programs through community services, churches, and social service organizations, it faced challenges in attracting attendees. Fewer than ten people attended the sessions, despite the bank's efforts to partner with other community organizations and to provide the convenience of free meals and babysitting services.

For this reason, the bank has taken initiative to modify its approach to education, working with different organizations and community groups to conduct more effective outreach. It participates in larger community events that attract a broader audience, such as the local “Get Smart About Credit Day” and “Financial Fitness Week,” which is led by the Federal Reserve Bank of Kansas City and the FDIC in partnership with CBKC, United Way, and the Mexican Consulate. The bank also began offering financial education classes at a home for abused women who lack the know-how to handle and manage finances.

A statewide financial education requirement in high schools provides another channel through which to educate the community. CBKC was involved in advocacy efforts for mandatory financial education, and in 2005, the State Board of Education added a one-semester personal finance course to its graduation requirements for all public high school students, beginning with the Class of 2010.

III. Lessons Learned

- **Multiple segments exist within the Hispanic market, which need to be addressed in order to successfully serve the unbanked.** Many intricacies and complexities exist within the immigrant communities, which require a thorough understanding in order to tailor products to meet the specific needs of various generational and ethnic sub-segments.
- **There is no silver bullet that will resolve the various challenges in the unbanked and underbanked population.** Banks should continually develop a variety of outreach programs and refine products and services which help unbanked individuals enter the banking mainstream.
- **Lack of financial literacy is often at the root of financial mismanagement, so education and outreach, particularly through community partnerships, are imperative to developing better banking customers.** Immigrant sub-segments have different levels of understanding and comfort with the banking system, and banks must assess and address their financial literacy through partnerships with community organizations in order to build trust and provide understanding, which will encourage their use of banking services.

About Central Bank of Kansas City

Central Bank of Kansas City is a \$162 million CDFI located in the Kansas City metropolitan area. Three of their six locations are in Kansas City’s urban core. Its Kansas City footprint is located on the east side of the city, a geography that produces a preponderance of low- to moderate-income or distressed Census tracts. The bank also operates six ATMs located at all of the locations except for its Archie facility. In addition, the bank operates three ATMs at off-premise locations—one at a local university in Kansas City’s urban core and two at convenience stores in distressed communities. The bank’s largest loan products by dollar volume are commercial loans, including commercial and industrial loans and commercial real estate loans, and residential real estate loans. The bank’s lending emphasis is on commercial and retail (small business) lending. Central Bank of Kansas City is owned by Central Bancshares of Kansas City, Inc., Kansas City, Missouri, a one-bank holding company.

Assets, \$Th, as of September 30, 2008: \$165,010

KeyBank

KeyBank's strategy for serving the unbanked and underbanked populations consists of an integrated approach that includes product development, technology, modified retail operations, outreach, financial education, and strong management support. The KeyBank Plus program offers low-cost check cashing and money orders for non-customers and was developed as a way to attract clients to the bank with the goal of converting them to deposit account customers over time.

"We believe the unbanked/underbanked constitute a significant market and that we are able to meet their needs in a reasonably price, profitable and respectful way."

– Michael Griffin, SVP, Community Development Banking

I. Target Population

One-quarter of KeyBank's branches are located in low- to moderate-income Census tracts, and the bank reports that its management team constantly seeks new and better ways to make those branches more effective and profitable. In addition, KeyBank has learned that many of their branches in middle and upper income areas can be productive locations for these programs. The unbanked and underbanked segments targeted include working poor, urban residents, African Americans, and Hispanic Americans.

II. Initiatives

KeyBank Plus Program

KeyBank believes that unbanked and underbanked individuals in their service areas need different products and approaches than what is offered to mainstream customers. Bank executives initially planned to center outreach efforts on marketing savings accounts with a minimum balance and free checking accounts that would be affordable and easy to use. However, the bank quickly realized that it would first need to recognize and identify the reasons why individuals were unbanked. Employees observed that individuals often prefer alternative service providers to financial institutions either because they do not understand how bank accounts work or because they have had negative experiences with banks in the past. Based on this understanding, KeyBank decided to change its outreach approach by offering check cashing services at a low price, as a means to bringing the unbanked into branches. Check cashing is an important first step in establishing a comfort level between the unbanked and the financial institution before offering other, more economical banking products.

In 2004, the bank began offering check cashing services through a pilot program for the **KeyBank Plus Program**, which involved five branches in Cleveland and soon expanded to 26 branches in and around the Cleveland area. KeyBank currently offers check cashing in 177 branches, branded as **KeyBank Plus**, in six different markets in Cleveland, Akron, Upstate New York, Colorado, and Oregon. The program provides fee-based check cashing to non-depository clients. In three of the markets, the fee is 1.5 percent with a \$22.50 maximum fee and 1 percent in the remaining markets with a \$25 maximum fee. Since its inception, the bank has enrolled over 22,000 people and cashed over \$58 million in checks, with check size averaging about \$700.

To enable the bank to offer low-cost check cashing, KeyBank utilizes a biometric technology system for authentication of repeat check cashing customers to expedite the process and reduce risk for repeat check cashing customers. Enrolled check cashing customers simply swipe state-issued identification cards (e.g., drivers' licenses) and place their finger on a scanning device to validate their identity for the bank teller. To use this service, customers must enroll in the program so that their checks can be cashed quickly, usually in about a minute. Customers have reacted positively to the authentication system because they feel it provides security for them and prevents other people from stealing and cashing their checks at the bank. The system will also alert tellers if a particular transaction deviates from a behavioral norm and allows the teller to determine whether or not the check should be cashed. For example, if a customer cashed checks for \$500 every two weeks over a long period of time, the system would recognize that cashing a \$1,000 check would be outside of the normal parameters.

As KeyBank introduces check cashing services to more branches, one of the bank's goals is to transition unbanked and underbanked customers from check cashing to mainstream banking products and services. However, the bank is cautious in its approach because "the reality of the situation is that some people are only comfortable with check cashing, so we need to manage our expectations and respect their preferences." The bank refrains from pressuring check cashing customers to use other banking products if they feel uncomfortable with changing the way they handle their finances. As part of this approach, the bank also offers five free money orders for each check cashed, which provides an affordable and convenient way for customers to pay bills without a deposit account.

Branch managers have observed that when new customers seeking check cashing services learn that they qualify for a checking account, the majority decide to open an account instead of cashing their check. (The bank does not record the number of accounts opened by new customers who come to the bank with the original intention of cashing their checks.) In addition, the bank estimates that 20 percent of its check cashing customers also have an account at KeyBank, which classifies them as underbanked individuals. Bank employees explain that although these customers have accounts, they may cash some of their checks because it allows for an immediate availability of funds, an advantage relative to depositing funds in checking or savings accounts.

Currently, KeyBank cashes government and payroll checks but does not accept third-party checks, with the possible exception of existing customers cashing checks issued by insurance companies. The general guidance is that checks should be pre-printed, but if branch managers or personnel have previous experience with a local employer who typically issues handwritten checks, they will permit those checks to be cashed. Importantly, the bank does not restrict check cashing to on-us checks.

The bank reports that check cashing services have been a successful venture for KeyBank, and it has incurred a minimal loss compared to the standard check-cashing business. Branch managers have welcomed this approach because they view check cashing as income that feeds directly to their bottom line. Opportunity in the market exists because managers see the potential profitability and ability to attract new customers who would not otherwise come into the bank. Furthermore, because the bank already had the necessary brick-and-mortar branches and personnel, it was also able to make the business case to offer services at a lower price than traditional check cashers without major investment. New challenges in the marketplace compel KeyBank to evaluate and evolve its products and services, however. For instance, the state of Ohio recently passed a 28 percent interest rate cap on payday lending. Restricting interest rates may influence unbanked and underbanked individuals' use of payday lending and alternative service providers overall, particularly check cashing behavior. While the implications of this new restriction have yet to be determined, it could potentially have a positive effect on KeyBank's check cashing volumes and service to unbanked and underbanked populations in its Ohio markets.

Education and Outreach

KeyBank utilizes two different approaches in its efforts to reach out to the unbanked and underbanked. To target consumers, the bank advertises in radio, buses, transit stops, community newspapers, and neighborhood development group newsletters. To attract customers within the vicinity of bank locations, **KeyBank Plus** branches announce the availability of their check cashing service with banners stating "Check Cashing: No Account Required, ChexSystems Welcome." Radio remotes are also scheduled inside some branches. KeyBank also partners with faith-based organizations, schools, and community development organizations to provide financial education and information about products and services at the organization's location.

On the payroll side, KeyBank utilizes a program called **Key at Work** to provide services to employees of employers that are KeyBank customers. In addition to providing free checking and savings accounts to employees, the bank also offers discounts on other bank products. For employees who do not have, or cannot establish, a traditional bank account, the bank offers **PayWorks**, a reloadable payroll card through which they can access their salary.

One of the bank's branches has a financial education center at the location. At the center, customers are encouraged to set financial goals and are given \$250 to deposit once they achieve their goals. The center also provides IDA education, with a focus on home purchases and eligibility for Earned Income Tax Credits (EITC). In addition to informing people that they qualify for EITC and can avoid refund anticipation loans (RAL), the bank also offers free tax preparation services, in cooperation with EITC Coalitions across its footprint, when the customer opens an account. The bank also has staff on hand to open accounts for direct deposit and to present information about other bank products. For alternative service providers, tax season presents the most opportunities to acquire new clients for check cashing services. Over time, the bank hopes to increase awareness in the community so that individuals who come to the center for tax preparation services plan to set aside 25 percent of their tax refund toward savings rather than spending the entire amount.

Future Products

KeyBank plans to offer remittance products in the future and believes that it is something that they “need to offer” due to customer demand.

KeyBank identified that offering bill payment services, while valuable to the community, is a more difficult endeavor for the bank. KeyBank offered utility bill payment in the past, but the service required that tellers undertake the daunting task of aggregating and tallying a large volume of bills at the end of each day. The bank is trying to find an alternative technology solution for bill payment, possibly full-service kiosks located in branches.

Market Research

To gain insight into the unbanked and underbanked population, KeyBank meets regularly with local nonprofit organizations and community development corporations and conducted several focus groups with customers and non-customers to determine whether KeyBank’s products and services meet the community’s needs. Findings from these research efforts helped form the bank’s outreach efforts and measure the effectiveness of current offerings, so as to help identify successes and concerns in the banks’ approach. Anecdotally, one focus group asked people to identify characteristics of check cashers and bankers. Respondents described check cashers as comfortable and familiar members of their communities and neighborhoods, while bank employees were perceived to be corporate outsiders who did not belong to their neighborhood and made them feel uncomfortable. To overcome client misperceptions, KeyBank encouraged unbanked customers to come into the branch, see that they can be comfortable with branch personnel, who often live in the community, and overcome their ideas of what the bank is and what kind of clientele the bank looks for.

While the unbanked and underbanked had their own misperceptions of bank employees as unwelcoming and unfamiliar, some bank employees also had their own views of check cashing customers. Some employees had characterized these customers as less honest and less trustworthy than mainstream, conventional account-holding customers. To combat these notions and to improve their relationship with and understanding of customers, KeyBank’s leadership sought to change employees’ perceptions by holding training sessions on-site.

KeyBank has also promoted research by and provided funding to other organizations. In 2007, it sponsored a study with the Ford Foundation and the Center for Financial Services Innovation to segment check cashing behavior, determine how likely customers would be interested in banking products, and identify whether these preferences were due to convenience or price sensitivity. In 2007, the bank made investments in a fund that focuses on investing in technology and programs that develop products for the underbanked.

III. Lessons Learned

- **Break down misperceptions on both the client and employee sides through education and awareness.** KeyBank accomplished this by identifying unbanked individuals' misgivings about financial institutions and their employees, addressing their concerns, and inviting them to branches to establish a personal connection with bank staff. On the other hand, the bank also educated its employees about check cashing customers in an effort to overcome negative misperceptions and to facilitate respectful customer interaction that would enable the bank to deliver value to unbanked individuals.
- **Check cashing clients represent a similar segment of the population as those who use deposit accounts but have simply chosen to manage their finances in a different way.** Some prefer to use check cashers, despite the higher service fees, because they know the exact costs involved, can receive the money tangibly and immediately, and know how much they have available to use until they receive their next paycheck. Offering and marketing products and services, such as check cashing, that provide the same conveniences and benefits enables banks to provide immediate value to unbanked individuals, in addition to mechanisms for transitioning into the financial mainstream.
- **Financial education is essential to help the unbanked make informed decisions.** Without knowledge of how banking products work, consumers may not be willing to deal with banks and will continue to use traditional check cashing services.

About KeyBank

KeyBank is a nationally-chartered bank headquartered in Cleveland, Ohio. The bank was formed in 1994 through the merger of Society Corporation of Cleveland and KeyBank Albany, New York. KeyBank has approximately 18,400 employees and 2.2 million retail, small business, and corporate and investment clients. Its 965 branches and 1,444 ATMs are located in Alaska, Colorado, Idaho, Indiana, Kentucky, Maine, Michigan, New York, Ohio, Oregon, Utah, Vermont, and Washington. KeyBank is owned by KeyCorp.

Assets, \$Th, as of September 30, 2008: \$97,811,238

