From the Margins to the Mainstream:

A Guide to Building Products and Strategies for Underbanked Markets

National Community Investment Fund

RETAIL FINANCIAL SERVICES INITIATIVE

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Preface and Acknowledgements

The mission of the National Community Investment Fund is to strengthen community development banking institutions—community banks, thrifts, and credit unions—so they are both effective agents of local community development in distressed communities and sound financial institutions. Through direct investments, NCIF helps these institutions revitalize markets with loans, deposits, and innovative financial services for households and businesses. NCIF has invested almost $20 million in 32 banks and credit unions, bringing specialized credit and wealth-building financial services to the nation's underserved urban, rural, and reservation communities. NCIF investees have made over 42,000 development loans, with a total value of $1.52 billion, in low- and moderate-income neighborhoods.

As a complement to direct investments, NCIF promotes research, product development, and knowledge sharing through its network information services. Through these services, a network of senior executives of development banks and credit unions share business models, product research, and best practices in the areas of resource generation, financial performance, and development impact. Network services also support research and development for the financial services industry as a whole, focusing on capital delivery and financial services for low- and moderate-income communities.

In 2002, NCIF launched the Retail Financial Services Initiative, an effort to help bridge the gaps in the marketplace for financial services that were reasonably priced for the consumer and profitable for the institution. Over the past three years, RFSI invested in 12 banks and credit unions, helping them develop, test, and implement new products and strategies aimed at bringing the "unbanked" and "underbanked" into the financial mainstream.

This guide addresses the underlying strategic and operational issues RFSI institutions encountered as they designed and implemented their products and strategies. In most cases, local market conditions, along with the specific needs and capabilities of the institutions and their partners, were the principal forces shaping products and strategies. Consequently, the purpose of this guide is not to provide a blueprint for copying RFSI products and strategies, but rather to help representatives from other institutions think through some of the main strategic and operational considerations they are likely to encounter if they undertake similar approaches. This guide is geared to institutions, large or small, that want to offer retail services for unbanked/underbanked consumers. This could be a large national bank looking to develop a new product line, a regional bank considering a new retail strategy, or a small credit union looking to expand its charter.

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Sincerely,

David McGrady, NCIF Chairman

Lisa Richter, NCIF Fund Advisor

Introduction

Although the United States has one of the world's most sophisticated financial-service industries, there is a significant gap between households that have access to mainstream products—checking and savings accounts, IRAs, 529 college savings accounts, and prime-rate loans (mortgages, lines of credit, and auto loans)—and those that do not. As many as one American family in five, 22 million households, have no bank account. Millions more have accounts but continue to use fringe financial-service providers such as check cashers, pawnshops, payday lenders, title lenders, and rent-to-own businesses.

Participating RFSI institutions learned first-hand of the many reasons people are unbanked or underbanked. For the unbanked, a bank account doesn't make financial sense for day-to-day transactions; others were concerned about fee structures they did not understand. Some of the unbanked previously had accounts that they closed (or the institution closed for them) because they frequently overdrew and incurred high fees; others, some of whom were previously banked customers, simply walked away from overdrawn accounts only to find themselves relegated to ChexSystems, the national database most banks and credit unions use to screen out high-risk customers. Newly arrived immigrants to the U.S. often lack the identification required by law to open an account. Many others simply don't trust financial institutions.

The underbanked—those consumers who have checking or savings accounts at depository institutions but continue to use the fringe financial sector for a variety of reasons—face similar obstacles to fully participating in the financial mainstream. Many live in communities with cash economies, where vendors, including landlords, won't accept personal checks. They use check cashers to cash paychecks and bill-payment services to settle debts. Payday lenders offer fast cash to consumers who cannot access bank/credit union loans or credit cards because of poor credit, or because they have maxed out on their credit cards. Others use rent-to-own stores despite the high cost because the contracts they offer are the only form of credit available for major purchases.

For the past 20 years, the mainstream financial services industry has largely dismissed unbanked and underbanked sub-prime markets, except where serving these customers helped financial institutions fulfill statutory and regulatory obligations. Yet these markets are increasingly attractive. Consider the numbers: The combined market for unbanked consumers and sub-prime borrowers comprises 30 million to 40 million households. And the phenomenal growth of the alternative financial services sector demonstrates the market's viability. According to a 2003 study by John P. Caskey, a Swarthmore College economics professor, the number of check-cashing outlets grew from 1,202 in 1986 to 16,689 in 1993. The annual revenues of ACE Cash Express, one of the nation's largest providers of alternative financial services, grew nearly ten-fold in the decade from 1992 to 2002, from $26 million to just shy of $230 million. According to industry figures, check-cashing outlets now process nearly 180 million checks per year, with an estimated face value of $55 billion.

This growth has had broad implications for social and economic policy. Other stakeholders—federal, state and local policy makers; financial regulators; community development groups; consumer advocates; and financial institutions—have realized that low-income consumers need access to quality, low-cost financial services. In the past few years, the FDIC and the Federal Reserve have led efforts to engage mainstream institutions in exploring how to serve unbanked and underbanked markets. At the same time, legislators and government regulators at the state and federal levels are working to control high fees and other predatory practices of the check-cashing and payday-lending industries. Consumer advocates, meanwhile, are working to curb demand for fringe products. The Consumer Federation of America's "America Saves" campaign, for instance, encourages people to save and build assets. Then there are industry-based solutions that have emerged as mainstream financial institutions began experimenting with strategies for entering unbanked and underserved markets. Union Bank of California and Key Bank in Cleveland, for example, have opened networks of branches in low-income communities that combine check-cashing services, depository and loan products, and on-site financial education and counseling.

RFSI INSTITUTIONS, PRODUCTS, AND PROJECT LEADERS

INSTITUTION	PRODUCT	RFSI LEADER
Alternatives Federal Credit Union Ithaca, NY	Alternative Loans & Free Tax Preparation	Bill Myers *CEO*
Bethex Federal Credit Union Bronx, NY	Check Cashing Partnership	Joy Cousminer *President & CEO*
Central Bank of Kansas City Kansas City, MO	Stored Value Card	Tom Lilley *Chief Financial Officer*
Citizens Trust Bank of Atlanta Atlanta, GA	Second Chance Accounts	Moira Montgomery *Vice President*
Hawthorne Savings Bank* El Segundo, CA	Community Partnerships	Milton Knox *Vice President*
Legacy Bank Milwaukee, WI	Second Chance Accounts	Margaret Henningsen *Founder and Vice President*
Mission Community Bank San Luis Obispo, CA		Kathyleen McClenathen *Assistant Vice President*
North Side Community Federal Credit Union Chicago, IL	Alternative Loans	Ed Jacob *CEO*
Opportunities Credit Union Burlington, VT	Community Partnerships	Cheryl Fatnassi *Chief Operating Officer*
SSA Baltimore Federal Credit Union Baltimore, MD	Check Cashing Partnership	Kevin E. Roland *Vice President*
University National Bank St. Paul, MN	Stored Value Card	David Reiling *President & CEO*
Water & Power Community Credit Union Los Angeles, CA	Community Partnership	Carlos Rodriguez *Marketing Officer*

**Hawthorne Bank was acquired by Commercial Capital Bank and withdrew from the initiative.*

Yet there aren't nearly enough examples of mainstream, industry-based solutions. When NCIF established the Retail Financial Services Initiative, it sought to bolster the number of industry-based solutions by modeling new ways to match supply and demand. On the demand side, a growing segment of the underserved market needed basic financial services before they could migrate towards more profitable loan and savings products. On the supply side, NCIF had come to believe that depository institutions whose primary missions focused on community development would be most interested in product innovation for low-income markets. In bringing together the six banks and six credit unions, RFSI's goal was to foster the development of new products, technologies, and practices for serving low- and moderate-income customers—and to learn how these new products and services could improve the quantity and quality of financial services throughout the industry as a whole.

When NCIF invited the RFSI institutions to join the three-year project, peer learning was a core component, and over the course of the initiative, NCIF created a structure for peer learning among the RFSI institutions. From time to time, NCIF convened meetings around specific issues. In March 2003, for example, NCIF sponsored a half-day workshop with ACCION International, an international development organization that specializes in low- and moderate-income markets. Drawing on ACCION's systematic model of product development (see Appendix), RFSI institutions examined their own processes to determine how they might be improved upon. Most of the learning, however, occurred as a part of ongoing conversations among RFSI colleagues. Participating institutions met twice per year to review their progress and discuss operational and strategic issues. NCIF hosted periodic conference calls and documented the development and evolution of products and strategies among the sites. NCIF also provided technical assistance to sites and worked with them to collect and analyze customer data and profitability.

This guide brings together many of the lessons and insights that emerged from the peer-learning process. The core elements of this guide are part case study, part strategy brief—hybrid chapters that can be read at several different levels. Readers wishing for a quick overview can read the chapter summaries at the beginning of each chapter and skim the body. Those looking for more nuance and detail will find them in the narrative sections of each chapter. The closing chapters summarize the underlying business case, outcomes, and lessons from the initiative. Taken as a whole, the guide offers other institutions the basic tools they need to develop the products and services that can reach the unbanked/underbanked at a scale that is both profitable for providers and beneficial to their customers.

BALANCING CONVENIENCE AND RISK:

Developing Alternative Payday Loans

Many low- and moderate-income families face chronic shortages in household cash flow. A 2003 study by MetLife found that 87% of families with incomes under $30,000 per year live paycheck-to-paycheck, as do 65% of households with incomes between $30,000 and $49,999. For households with higher incomes and good credit scores, managing household cash flow is a matter of juggling readily available, and moderately priced, consumer credit: credit cards, checking overdraft loans, and lines of credit. But, for lower-income families or those families with poor credit—often one and the same—household liquidity is a constant struggle. For these families, “fast cash” often means the difference between paying rent and buying groceries.

Among the many products that have emerged from the “fringe” financial services industry, a product known as a “payday loan” is among the fastest growing and most profitable. Also known as a “cash advance loan,” a payday loan is a relatively small short-term loan made on a borrower’s post-dated check—minus the lender’s fees. (On an average $300 loan, a borrower will typically receive $255 in cash and incur $45 in fees.) According to the Center for Responsible Lending, the market for payday loans quadrupled in just three years. In 2000, payday lenders generated $1.4 billion in fees on 41 million transactions. By the end of 2003, the industry made $6 billion in fees on 100 million transactions. During this period, total loan volume grew from $10 billion to $40 billion.

On the surface, payday loans may seem like a reasonable solution to short-term hiccups in cash flow, especially for borrowers unable to get mainstream credit. Indeed, commercial payday lenders counter critics’ charges of usury by pointing out that high fees—$45, say, for a two-week $300 loan—are justified to cover their risk. Payday loan customers do have a higher risk profile than prime-rate borrowers, so products should be priced accordingly. Payday lenders require no formal underwriting, requiring only that customers have a job and a checking account.

CHAPTER SUMMARY

PRODUCT/ STRATEGY DEFINITION—A traditional payday loan is a short-term loan or cash advance made on a borrower's post-dated check. Payday loans carry hefty fees and often lead to chronic debt as the loans are rolled over. Payday alternative loans retain the transactional qualities (fast cash, easy underwriting) while dropping the predatory aspects.

CRITICAL SUCCESS FACTORS—

- **Competitive pricing.** Traditional payday loans are expensive: Fees are high, and loans are often rolled over every two weeks (for another fee). Lower pricing is cheaper, and longer loan terms allow customers to break away from traditional payday loans.
- **Fast turn-around.** Customers need their cash immediately. If alternative products are to compete with payday lenders, lenders have to issue loans almost immediately.
- **Customer relationship management and education.** Staff needs time to build relationships with customers and help them develop long-term financial plans. Partnering with a nonprofit or community-based organization that offers these services is another option.
- **Loss mitigation.** These are high-risk loans, and institutions need a way to minimize losses while keeping product costs down. Grant funding for a loan-loss reserve or loan guarantees are two options to consider. Requiring direct deposit for repayment will lower risk, too.

INSTITUTIONAL FIT—This strategy is appropriate for institutions who are partnering with community-based organizations, or for employers who want to improve the financial well-being of their employees. Payday loans are also a good tool to increase deposits from, and strengthen relationships with, commercial customers by offering an inexpensive way to offer their employees cash advances.

The structure speeds loan approval but also raises the lenders' risk profiles. Moreover, industry defenders argue, the pricing structure of payday loans is analogous to that of other short-term products of convenience like short-term airport parking. Customers pay for convenience, and the loans should be used sparingly.

These economic arguments sound reasonable on the surface, but for people who live paycheck-to-paycheck, payday loans are a carousel of chronic debt. The loans' short terms often make it impossible for borrowers to pay back the entire loan. Those who can't pay back their loans have two choices: either, for another $30-$45 fee, they can rollover the loan, retaining the $300 principal, or they can default on the loan. This opens the floodgates to NSF fees from their bank and a bounced check fee from the lender, legal liabilities, and wage garnishment. (Lenders can repeatedly run a check through a borrower's account, increasing fees with each pass.)

Although the majority of payday borrowers eventually repay their debts, the economics of the industry depend on repeat borrowers. For example, the fee for a 14-day, $300 loan is $45; but the fees skyrocket to $225 after four rollovers (*see table*). According to the Center for Responsible Lending, 91% of all payday loans are made to borrowers who take out five or more payday loans per year. On average, borrowers receive between eight and 13 loans per year; only 1% of loans go to one-time borrowers. As a result, roughly five million borrowers are caught in this debt trap.

This churn also has important implications for financial institutions wanting to develop competing loan products. First, chronic rollovers create a monopoly effect since lenders don't necessarily need more customers to make money. They just need existing customers to continue rolling over debt. As a result, it is difficult for alternative providers to compete strictly on the basis of cost: Borrowers caught in a debt cycle return to the same lender again and again, despite fees or APR. And, since chronic borrowers typically live paycheck-to-paycheck, many view their rollovers as separate transactions. For many chronic borrowers, the rollover fee simply becomes the price of credit.

Market Profile for Payday Loan Customers

- Have bank accounts
- Most are employed, with incomes ranging from $15,000 to $60,000 per year
- Need "fast cash" loan decision and disbursal
- Most under 40 years old
- Slightly more than half are women
- Have average of nearly 12 loan transactions per year
- Average cash advance is $245.03 with an average finance charge of $49.37 (528% APR)

Source: John P. Caskey, "Fringe Banking and the Rise of Payday Lending" (2003).

In the past couple of years, community-based financial institutions have begun developing low-cost alternatives to payday loans. Community partners are interested in this strategy to help their constituents reduce their reliance on predatory loans. Research has shown that employers have a self-interest in payday loan alternatives: Their employees are less productive and less reliable when they are worried about finances. Though these market-based solutions to the credit needs of low-income borrowers are still in their infancy, the pioneering products compete on the basis of cost and convenience—the two main drivers in this market segment. This chapter profiles the Payday Alternative Loan developed by North Side Community Federal Credit Union in Chicago. According to North Side estimates, PAL loans save customers an average of $950 per year, which means that roughly $2 million per year goes back into the community. North Side's PAL has also generated significant value for the credit union, helping it to attract new members and deposits, build relationships with employer groups, and strengthen its reputation as a national innovator. With a few modifications to product fees and guidelines, the product could be profitable, though North Side has thus far declined to make all these changes because doing so would limit its ability to serve very-low-income members. Yet institutions that do not share North Side's commitment to mission could well develop a remarkably strong product by building on North Side's innovations.

Product and Strategy:
Building a Better Payday Loan

For North Side, the principal challenge of the PAL was balancing risk while meeting customer demand at a price that worked for both the institution and the borrower. North Side's PAL aims to supplant what the credit union views as customers' exploitative relationships with commercial fringe creditors. That means offering a better, lower-cost product; but, it also means linking members to credit counseling, financial education, and access to asset building products to meet their needs.

When North Side rolled out its Payday Alternative Loan (PAL) in 2002, the goal was to help members break the debt cycle while also competing with lenders on the basis of convenience. An equally important motive was attracting business accounts from employers who wanted to offer fairly priced payday loans to their employees. The eligibility requirements were minimal. In the beginning, the only requirement was that customers make at least $1,000 per month and join the credit union. (As delinquencies crept up, North Side eventually began requiring a three-part financial education course for borrowers with credit scores below 580.) Members can borrow up to $500 at one time, and they must pay back a minimum of $87 per month. There is a $30 application fee—up from $10 when the loan was launched—and an APR of 16.5%. The loans also have a much longer term—six months for a PAL versus two weeks for a conventional payday loan—which drastically reduces rollovers and fees. From a customer's perspective, the PAL is a bargain: The net cost of a six-month loan of $500 is about $55 ($30 application fee and $25 in interest), compared with $540 for a traditional payday loan ($45 initial fee and 11 rollovers at $45 each). North Side sweetens the deal, too, offering to make a borrower's last payment (up to $50), or to put $50 into a savings account. Through the end of July 2005, North Side has done 3,531 loans. North Side recognized the inherent risk in the payday loan product from the very beginning. It raised a loan loss reserve of $58,000 from four local banks, the majority from one large bank in the region.

North Side Manager Ed Jacob also chose to make PALs as widely available as possible. "We don't even require customers to have a bank account," he notes. "That puts us even farther out on the risk continuum than payday lenders. At least they require you to post a check on your account." In a sense, this extra risk has been a boon to the customers and the community—an important social return for a mission—driven financial institution: more money in the pockets of community members, more money spent at local businesses, and fewer assets stripped away from the community as a whole.

Operations:
Lowering Costs, Mitigating Risk

Operationally, the loans are extremely simple. When a customer comes into the bank, the teller confirms proof of income and a valid identification. The customer fills out a loan application, which is then processed by a loan officer. The credit union squeezes transaction costs by minimizing paperwork and limiting the time spent with loan officers. North Side also reduces collection costs by encouraging members to use direct deposit or electronic payment, though less than a third pay automatically. (North Side's examiner prohibited requiring electronic payment as a condition of the loan, though examiners elsewhere in the country have allowed it.) North Side staff spends 10 hours per week making collection calls before delinquencies are sent out to a collection agency. Not only does this save money on collections, but it also helps North Side separate customers who have no intention of repaying the loan from credit union members with genuine hardships.

About two years after launching the PAL, North Side saw its delinquencies edging upwards, and in December 2004, North Side made several changes. First, it raised the application fee from $10 to $30, a move that covered more of the product's cost but did little to minimize defaults. To mitigate that risk, North Side required applicants with credit scores below 580 to enroll in a three—part financial education class before they could get the loan. The changes cut the loan volume nearly in half—North Side averaged 130 loans per month in 2004, but made just 169 in the first quarter of 2005—but delinquencies have started edging back down, presumably because many of the potential delinquent borrowers simply walk away.

North Side's ongoing struggles with delinquencies underscore the challenges inherent in creating a payday loan product that balances prudent underwriting while making loans accessible to the broadest possible range of customers.

THE HYPOTHETICAL COST OF A $300 LOAN: COMMERCIAL PAYDAY LOAN V. NORTH SIDE PAL

Although North Side's PAL is a six-month term loan, borrowers could repay it within a matter of weeks—making it a much less expensive option than a conventional payday loan. The following chart outlines the relative cost of a hypothetical $300 loan when compared to the fees associated with rolling over a traditional payday loan.

	Commercial Payday Loan	North Side PAL
Original Loan Amount	$300	$300
Restrictions and Limitations	-Must have a bank account -Must present proof of employment -Must present valid ID	-No bank account required -Must show proof of $1,000 monthly income -Must present valid ID -$500 limit -No more than two loans per year -Borrowers with low credit scores below 580 must enroll in credit counseling class
Term	14 days	14 Days
Fee Structure	$45	$30 (application fee) +16.5% interest
Net Cost	$45	$31.90
Term	28 days (14 days, plus one 14-day rollover)	28 days
Fee Structure	$45 (original fee) + $45 (rollover)	$30 (application fee) +16.5% interest
Net Cost	$90	$33.80
Term	70 days (14 days, plus four 14-day rollovers)	70 days
Fee Structure	$45 (original fee) +$180 (four $45 rollovers)	$30 (application fee) +16.5% interest
Net Cost	$225	$39.50
Term	6 months(14 days, plus eleven 14-day rollovers)	6 months
Fee Structure	$45 (original fee) +$495 (eleven $45 rollovers)	$30 (application fee) +16.5% interest
Net Cost	$540	$53.81

North Side Manager Ed Jacob considered a number of strategies—raising fees, requiring credit counseling, restricting loans based on credit counseling, requiring repayment through direct deposit (though credit union regulators have given mixed signals on this requirement)—but found that each risk mitigation strategy either made the loans less convenient for the customer, reduced loan volume, or both.

In the end, Jacob's decision to limit the number of loans per year and require credit counseling for the highest-risk members allowed North Side to minimize risk while also keeping the barriers low. By contrast, ASI Federal Credit Union in New Orleans (*see box on next page*) has managed to make its payday alternative loans product profitable as a stand-alone product by introducing a higher fee structure, instituting separate membership requirements for the program, and requiring direct deposit for repayment as a condition of the loan.

Marketing and Customer Relations: Helping Members Move From Borrowing to Savings

North Side has never put many resources into marketing their credit products. It has done some direct mailing to existing members and employer groups, but most of its marketing is word-of-mouth. North Side has built a portion of its membership by recruiting employees of area businesses, and Jacob says the PAL has been an attractive product for small- and medium-sized businesses looking to improve their employees' finances and reduce financial stress among low- and moderate-income workers. On the customer side, Jacob says, "We have more volume than we can handle." A while back, an employee at the local post office took out a PAL, and the following week 30 postal employees showed up to apply for loans. Other than that, there are no billboards, no signs, no mass marketing. The product essentially sells itself because it is responding to such overwhelming demand for reasonably priced, fast-turnaround credit.

North Side views the PAL primarily as a hook to lure customers away from competing fringe credit and then move them into the financial mainstream. Every PAL customer receives a phone call from a North Side customer education representative, who encourages him/her to enroll in financial education classes. Representatives explain that the PAL offers an opportunity to build credit history and offers a gateway to asset building. The new financial education requirement for PAL customers with poor or no credit will also provide North Side with the opportunity to build relationships, and begin to establish trust, with new members. Given the success of the PAL product, the credit union now finds itself facing an enviable challenge: scaling up beyond its current five-member staff so it can meet the growing demand for high-touch customer relationships.

The PAL has also produced several secondary institutional benefits. Over the past two years, Jacob estimates that the PAL had a hand in helping to attract at least four new employer groups, though it was not the only factor. One employer has put up a $10,000 certificate of deposit to help secure PAL loans to his employees at $0.50 on the dollar. If North Side turns away one of the employees using traditional underwriting, the employee may still be able to get a loan since the employer's capital helps defray some of the risk. If this model is successful, North Side will explore a similar relationship with other employers.

Performance & Outcomes:
The Economics of Gateway Products for the Unbanked

North Side's PAL is not profitable as a stand-alone product, but Jacob doesn't expect it to be. Rather, he views the PAL as an instrument that members can use to break the payday loan debt cycle. Put another way, the loans are the products that will bring members into the credit union, where they will eventually migrate to more profitable products. "Even with our fee structure, these loans won't be profitable on a product basis," Jacob says. Over the long-term, however, Jacob is convinced that PALs are the gateway to member relationships that will be profitable. Of the 3000 loans made by North Side, the credit union has gained 1000 new members. "Most banks are focused quarter to quarter," he notes. "But we're focused on

A Fair-and-Profitable Alternative Payday Loan: ASI Federal Credit Union's "Stretch Loan"

ASI Federal Credit Union, based in and around New Orleans, has developed a profitable payday alternative loan program. Under ASI's "Stretch Plan," credit union members pay $4 per week for a variety of services that appeal to low-income customers: a 10-minute phone card; free travelers' checks; overdraft protection; a free refund anticipation loan on their federal refunds; and $0.25 money orders. But the big draw is the "Stretch Loan," a 12% APR line of credit from $200 to $1,000.

To qualify, borrowers must be members with a six-month history of direct deposits. Borrowers are required to pay back $101 each pay period, but they can withdraw the money right away. When borrowers have established solid credit and made regular payments over six months, they are eligible for ASI's Enhanced Credit Builder program, which features a $3,000 line of credit.

Although the fees are relatively high compared with a traditional line of credit, they are necessary to accommodate the customers' higher risk profile. Nevertheless, $16 a month is still a bargain compared with the rollover fees charged by traditional payday lenders. To maintain a balance of $1,000, a customer pays $340 per year in fees and interest—an effective 34% APR, but still far less than the $520 average on payday loans in Louisiana. What's more, borrowers are able to build their credit scores.

SOURCE: Shirk, Martha, "Paycheck Poverty," AdvoCasey, Winter 2005, Volume Seven, Number One. http://www.aecf.org/publications/advocasey/winter2005/pdf/paycheck_poverty.pdf building relationships with our members over two to three years." The measure of the loans' success is not in whether or not they are profitable as stand-alone products, but rather how they help members migrate, which Jacob admits, yields a blend of social and financial returns. Thus far, Jacob's gateway theory seems to be holding true. In 2004, North Side had 96 mainstream loans (car loans, small business loans, etc.) outstanding to 66 PAL graduates for a total of $298,000. Still, he says, "The bigger question is whether or not someone who has been with us from the start will stay with us once their financial condition changes."

Still, there are ways to mitigate the risk of payday loans while minimizing losses. North Side has already started requiring credit counseling classes for applicants with low credit scores. But, there are trade-offs in reducing loan volume. Consider the following chart:

The experience of other credit unions has demonstrated that with direct deposit, it's possible to manage delinquencies and reduce the cost of servicing loans. On the other hand, many customers simply don't make enough money to meet their basic needs. Even with financial education, counseling, and limits on the number of loans, many still borrow chronically. In this case, credit unions must content themselves with the fact that they offer safe harbor—that customers can borrow over and over but not at predatory rates.

[1] "The MetLife Study of Employee Benefits Trends: Findings from the 2003 National Survey of Employers and Employees," (http://www.metlife.com/WPSAssets/21038406741080074055V1Femployee%20benefit%20trendspdf.pdf)

BALANCING RISK, PROFITABILITY, AND CUSTOMER CONVENIENCE IN PAYDAY LENDING

Risk Management Strategy	Impact on Risk Profile	Impact on Customer Convenience and Loan Volume
Restrict number of loans a customer can take out per year	- Lowers exposure to bad loans, but may drive borrowers to higher-cost lenders	- Less convenient - Using higher-cost lenders increases default risk
Institute more stringent repayment guidelines; i.e., loans must be paid off in full before taking out another	- Lowers overall exposure - Cuts delinquencies - May drive borrowers to high-cost lenders	- Less convenient for borrowers - Cuts loan volume
Require credit counseling	- May lower risk profile by weeding out people who just want the money	- Less convenient for borrowers - Cuts loan volume
Require payment through direct deposit	- Improves profit and lowers risk by giving lender first shot at paycheck, though not all regulators may allow this	- Limits loans to people with regular jobs - May sideline workers with informal-sector income - Only accessible for workers with payroll departments willing to set up direct deposit
Increase fees (with or without requiring membership or banking relationship)	- Can make payday loans profitable as products - Little impact on default risk	- Less convenient - Cuts loan volume, usually by making a loan program available only to credit union members
Institute "emergency only" provisions	- Lowers risk profile by discouraging chronic borrowing -Cut checks directly to vendors to ensure money goes to emergency purpose	- Very inconvenient: By definition emergency borrowers need cash immediately, and can't wait 2-3 days for emergency loan approval
Restrict loans based on credit scores	- Lowers risk profile	- Cuts loan volume
Build relationships with employer groups	- Lowers risk by offering point of intervention if loan is in arrears	- May cut loan volume, but also may help improve credit score if employers can assist with repayment through direct deposit or pressure

SEIZING THE TAX DAY:

Acquiring New Customers with Free Tax-Preparation Services

For the estimated 20 million low-income families that are eligible for the Earned Income Tax Credit (EITC), April 15th heralds a financial windfall. With EITC refunds averaging nearly $1,700, the federal tax credit, which was designed to reward work, is often the largest infusion of cash that many low-income families will see all year. Credit unions and community banks have come to realize that tax day represents an important moment for reaching low-income consumers of financial services. By offering free tax-preparation services as a hook, community-based financial institutions are often able to bring low-income customers—an estimated 70% of whom do not have a regular checking or savings account—into the institution. Using their federal tax returns as the opening balance, customers open basic checking and savings accounts. Ideally, these customers migrate from basic accounts to other savings, credit, and asset-building products—building credit, cultivating financial skills, and growing their assets. Over the past five years, growing numbers of banks and credit unions have been finding ways to connect to the tax moment—from sending bankers to free tax-preparation sites, to establishing referral programs, to setting up programs in their lobbies. In most cases, financial institutions partner with nonprofit organizations that offer free tax-preparation services for low-income families and EITC recipients, typically through the IRS's Volunteer Income Tax Assistance (VITA) program, which provides training tools and management advice. The Annie E. Casey Foundation's National Tax Assistance for Working Families program, which has been compiling data on the structure and outcomes of EITC campaigns across the country, reports that in 2004 the 41 participating campaigns (414 sites) prepared more than 158,000 returns. Financial institutions were involved with 20 of these campaigns.

Policy advocates applaud the fact that there was a 25% increase in the number of returns prepared by campaign sites in 2004, but they also acknowledge that the scale is nowhere near that of commercial tax preparers such as H&R Block and Jackson Hewitt. For the 2004 tax year,

CHAPTER SUMMARY

PRODUCT/STRATEGY DEFINITION — For many low- and moderate-income families, federal tax refunds (especially the EITC refund) represent the largest infusion of cash that they will have all year. By offering free tax-preparation services to these prospective customers, financial institutions are able to open accounts and build core deposits.

CRITICAL SUCCESS FACTORS —

Æ **Focus on customer acquisition.** Institutions have to be extremely disciplined about making it as easy as possible for customers to move from preparing a return to opening—and using—an account.

Æ **Right product mix.** Not all customers will want to open an account right away, so institutions have to have complementary products—especially a low-cost instant—refund loan-and a clear script for discussing the merits of different options for receiving a refund.

Æ **Strategic use of community partners.** Many community-based organizations offer free tax-prep services, and partnering with them often makes good sense. But institutions have to develop a relationship with the customer.

Æ **Smooth hand-off of new customers.** The most important element of this strategy is in creating a seamless hand-off from preparing a client's return to opening a new account. If working with a community partner, map out an integrated, consistent hand-off that feels right to the customer.

Æ **Staffing and management.** Financial institutions need a dedicated staff person to manage partners, coordinate volunteers, and administer the site infrastructure.

INSTITUTIONAL FIT—Tax-prep services are appropriate for institutions looking to increase core deposits in communities with high numbers of EITC—eligible taxpayers. Tax day is the one time of year when low-income families have extra cash—and a perfect moment to establish a banking relationship. In many communities, partnering with nonprofit organizations that already do tax-prep is a good option—but institutions have to be disciplined about creating a seamless hand-off from tax-prep to new accounts.

H&R Block alone completed 15.9 million returns, though not all clients were eligible for the EITC. One of the attractions of the paid preparers are the refund anticipation loans (RALs) that they offer their customers, which enable the taxpayer to walk out of the office with their tax refunds in hand rather than wait the 10-15 days for the payment from the IRS. The National Consumer Law Center estimates that consumers took out approximately 12.15 million refund anticipation loans during the 2003 tax season, down slightly from 12.7 million in 2002. In 2003, consumers paid $1 billion in loan fees, plus an additional $389 million in administrative or "application" fees for their tax benefits.

Almost all of the RFSI institutions have connected to EITC campaigns and VITA programs in one way or another. This chapter examines the approach taken by Alternatives Federal Credit Union in Ithaca, New York, which has run its own VITA program since 2002. Using tax-preparation services as the entry point for a broader customer acquisition and migration strategy, Alternatives has developed a suite of branded, integrated retail products and services (including a low-cost refund anticipation loan), marketing strategies, and customer education tools. This chapter will also help financial institutions think through the strategic and operational issues endemic to free tax-preparation campaigns.

Product and Strategy: Choosing the Right Approach

For several years, Alternatives Federal Credit Union in Ithaca, New York, had been thinking about ways to use the federal Earned Income Tax Credit as a hook for bringing low-income customers into the financial mainstream. According to IRS figures, about 2,000 families in Alternatives' service area were eligible for the Earned Income Tax Credit—a federal tax credit that provides low-income working families with refunds of up to $4,300 per year—but were not claiming it. All told, the area's low- and moderate-income families were forgoing nearly $1 million in unclaimed benefits—a significant potential market for Alternatives if it could get these families to join.

In 2002, Alternatives launched a free tax-preparation service under the aegis of the IRS's Volunteer Income Tax Assistance (VITA) program. "It was essentially a new-accounts strategy," explains Bill Myers, Alternatives CEO. "We said that instead of giving them a toaster, we'd give them a free tax return. We were looking at it as a financial institution, not a social service agency." If a client opens a share account, Alternatives waives the $10 membership fee and suspends the $5 minimum balance requirement until

To Partner or To Host: Strategy Decision Points

Æ **Overall Goal**—What is the overall goal? Is it customer acquisition, brand development, goodwill capital, community visibility, mission, or customer migration towards long-term profitability?

Æ **Competition/Partnership Opportunities**—Who else is offering tax-prep services? Can they be a possible partner?

Æ **Quality/Capacity of Community Partners**—If there is a viable partner, what services do they do well? What help do they need? Marketing? Volunteer recruitment? Financial support?

Æ **Internal Staff Capacity**—What level of involvement/oversight/financial risk can the institution handle in light of its goals? Financial risk and commitment of resources will follow goals. Because Alternatives saw tax-prep as part of a longer-term customer acquisition and migration strategy, it was willing to invest more resources.

Æ **Roles for Financial Institutions in EITC/VITA Campaigns**—Most financial institutions do not directly manage EITC/VITA sites. Here are some other options:

- Host tax preparation groups in their facility
- Send bank or credit union staff to off-site tax-prep sites to open new accounts
- Offer accounts at tax-prep sites by training volunteers or staff to open accounts
- Support marketing campaigns for EITC/VITA programs
- Recruit volunteers to prepare taxes at VITA sites
- Contribute to nonprofit organizations managing EITC/VITA programs

Æ **Cost Structure**—Given that tax-prep services are, at minimum, short-term loss leaders, how can some of the costs be underwritten—through foundation grants, public funding, or cost sharing with local partners? Financial institutions and community partners can make a strong case for charitable or public support to cover the direct costs of EITC/VITA programs.

the client's refund is deposited. Members are also able to take out a Refund Express Loan, a low-cost alternative to commercial instant refund loans. For a $20 fee, Alternatives gives customers a short-term line of credit, at an annual interest rate of 11.5%, in the amount of their anticipated return. But what distinguishes Alternatives from other community-based financial institutions that offer some sort of free tax-prep service is that Alternatives has chosen to manage the program and run the site itself. Local nonprofit partners help with volunteer recruitment and community outreach, but Alternatives retains control over volunteer training and management, client screening, branding, and administration of all financial transactions—filing returns, opening accounts, processing refunds, and approving loans. Conversely, most other financial institutions partner with local nonprofit organizations that actually manage the sites.

Alternatives' decision to host its own site was driven by two main strategic considerations. The first was the lack of a viable partner. There was only one other VITA site in Alternatives' service area, but it was exclusively for senior citizens. In the commercial sector, the main competitors were large private commercial tax-preparation companies like H & R Block. While Alternatives did not conduct any formal product development focus groups, commercial services drove design and strategy. The RAL component, in particular, was a direct response to customer demand—though the loan is priced significantly lower than competing loans, and Alternatives does not market it heavily. The second strategic consideration was Alternatives' twin goals of customer acquisition in the short-term and migration over the long-term. Running its own site gave Alternatives the opportunity to establish a relationship with the customer from the outset, and create a smooth pathway for customer development.

Without a local partner to share costs, Alternatives has sought to shift some of the costs to higher-income customers. It currently offers its tax-prep services to households earning under $50,000 per year. Though well above the income eligibility threshold for EITC ($36,000/year for families; $15,000/year for individuals), the higher income limits allow the credit union to have broader market penetration by distributing the costs of customer acquisition among low- and moderate-income families. Alternatives encourages non-members to open a share account so they can receive their refunds via direct deposit.

Alternatives also links its tax-preparation service to aggressive marketing (to cross-sell products) and customer-education (to induce customer retention and migration, and to minimize losses). Alternatives' staff makes a point to reach out to members who take out a REL to see if they qualify and are interested in converting that loan to a line of credit, a product that can be drawn upon to meet short-term cash-flow needs whenever they arise.

Operations: Building the Right Model

Financial institutions can make a number of choices about how to engage in the EITC/VITA process depending on their goals, partnership opportunities, internal capacity, and resources. Institutions with community partners managing the tax-prep sites and the underlying duties (marketing and outreach, volunteer management, site operations), can still acquire new accounts and promote asset building. By contrast, Alternatives' model is much more comprehensive and costly; however, it also has high rates of customer acquisition and retention, and has helped Alternatives build its brand as a leading innovator in serving low-income families.

Alternatives FCU Operational Model

- **Site.** During tax season, Alternatives' lobby is turned over to the VITA program from 3:00 to 7:00 p.m. each day during the workweek. This past year, local nonprofit partners hosted a trio of "Saturday Super Sites" at community centers around the county, allowing Alternatives to reach dozens of new clients through intensive one-day tax-prep road shows.
- **Staffing.** Alternatives employs a full-time VITA site coordinator whose main duties include managing operations and logistics, training and supervising volunteers, and overseeing customer education regarding predatory lending and credit repair. The site coordinator is also responsible for cultivating relationships with community partners. There is also a part-time seasonal employee and a VISTA volunteer.
- **Volunteer Management.** The VITA site coordinator manages a corps of roughly 50 volunteers who play one of three roles—greeters (who welcome clients); preparers (who prepare regular returns); and, specialists (who deal with complex returns). Volunteers receive six hours of training from the VITA site coordinator, who offers a regular "study hall" as volunteers prepare for IRS certification tests.

CREATING A FAIR, NON-PREDATORY RAL

The market psychology of refund anticipation loans is rooted in the perpetual cash flow crisis many low-income people live with day after day. A recent report from the Brookings Institution outlined several reasons why consumers take out RALs. The primary reason is a real or perceived need for immediate cash. Second, many commercial tax-preparation companies bundle loan fees together with application fees and the fee charged for preparing returns, thus obscuring the actual cost. (Likewise, many low-income consumers don't realize that the IRS can turn around returns with direct deposit within 8 to 15 business days.) Finally, even if they don't want to take out a RAL, many low-income consumers lack the money to pay for tax-prep out-of-pocket. Conversely, tax refunds often create a "windfall" effect, leading consumers, suddenly flush with cash, to disregard the hefty fees associated with RALs.

According to the National Consumer Law Center, about 10% of all taxpayers take out RALs, but RAL customers are disproportionately clustered at the bottom end of the economic ladder. According to the IRS, 79% of RAL recipients in 2003 had incomes of $35,000 or less. Over half of all RAL borrowers are recipients of the Earned Income Tax Credit (EITC), a federal anti-poverty tax credit designed to encourage and reward work. Yet RAL fees take a significant bite out of taxpayers' refunds. Alternatives wanted to offer customers a better deal. Consider the following comparison between Alternatives' Refund Express Loan and a typical commercial refund loan:

Commercial RAL v. Alternatives RAL for $3,600 refund in 2001

	Typical Commercial RAL	Alternatives FCU REL
Tax Preparation	$117	Free
Administration Fee	$35	Free
Loan Fee	$89.95	$20 Line of Credit + 14 days interest
(Fee or Interest)		@ 11.5% = $15.88
Effective APR	300%	11.5%
Restrictions	None	Must have Alternatives Share Account
Total Cost	$241.95	$35.88

Source: Alternatives FCU

More importantly, the loan is an enticement for unbanked customers to join the financial mainstream. The credit union waves the set-up fee for a basic share account, as well as the minimum balance requirement. Once the IRS distributes the refund, a loan officer evaluates the member's credit history and decides whether the line of credit should be extended. Financial planners and credit counselors are also on hand at the tax preparation site to help set up accounts and cross-sell other products: individual development accounts, savings accounts, car loans, lines of credit, small business loans, etc. In the 2004 tax year, Alternatives did 56 RALs for a total of $120,000, saving taxpayers an average of $150.

Alternatives' overall objective was to keep costs and overhead as low as possible, and one of its strategies was to cut product development costs by adapting an existing product. The RAL is actually a line of credit secured with promised federal tax refunds. But the underlying operations and administrative structures were already in place, thus saving Alternatives the expense and time of due diligence, costing, and product design. The Refund Express Loan fits in with current data processing systems so the back-office costs are kept to a minimum.

- **Community Partner Roles.** The VITA site coordinator has good working relationships with five principal nonprofit groups: the local United Way, the local living wage coalition, Tompkins-Cortland Community College, the Childcare Council, and the local Cooperative Extension Service. These partners provide word-of-mouth marketing, volunteers, and, more recently, helped coordinate "Saturday Super Sites." The relationships are friendly and supportive but not integral to the program's operations.
- **Integration With Regular Operations**. Alternatives' tax-prep services are tightly integrated with the institution's regular operations. Alternatives' loan officers and new accounts staff offer education, credit counseling, and retail sales at the VITA site. This integration has proved remarkably successful in recruiting and retaining new customers, particularly those who were previously unbanked. The long-term challenge is to develop credit counseling and customer-education services that migrate customers into more profitable products.
- **Marketing and Outreach.** Alternatives puts very little effort or expense into marketing and outreach. As the VITA site coordinator quipped, "It doesn't take much to convince people to get their taxes done for free." The service is advertised in the credit union newsletter and the newsletters of local nonprofit organizations. Volunteers and credit union members also spread the word. Even the local "Saturday Super Sites" require minimal effort: This past year, the VITA site coordinator sent out general materials, which the sites amended with the date, time, and directions for each site.
- **Product Mix.** After the first year, Alternatives realized it needed to offer a product that could compete with the expensive, but popular, refund anticipation loans offered by commercial tax-service providers. In 2003, the credit union began offering Refund Express Loans, which were essentially a short-term line of credit secured with a customer's federal refund. The credit union encourages customers to wait for an electronic refund, but having the product on hand is a critical enticement for many customers.

Key Operational Considerations

- **"Ownership" of the VITA Site.** Of all the operational considerations, Alternatives' decision to run the site itself was arguably the most important. Alternatives has much more control over the accuracy of returns and vetting of clients for EITC eligibility and tax liens—both key areas of financial risk. Likewise, the institution is able to achieve a requisite economy of scale to both lower overall costs and boost marketing and new accounts activity. If a client expresses an interest in opening an account, a member of the marketing team is nearby with brochures and marketing material. The "Saturday Super Sites" have been an important outreach tool as well, allowing Alternatives to expand its reach into rural areas. (Recruitment numbers are not yet available, but anecdotal evidence suggests that new member recruitment at super sites has been on par with, or above, the main site.)
- **Staffing and Management.** Having a staff member with the right skill set has also been critical to the Alternatives' success. In the program's first year, Alternatives' CFO, a trained accountant, oversaw the program, checking all the returns for accuracy and completing the more complicated ones. The VITA site coordinator has since taken over, and the CFO now consults only on particularly difficult returns. The site coordinator, meanwhile, has a much broader range of responsibilities, overseeing volunteer training and management, financial education, logistics, and operations.
- **Administrative and Management Systems.** Alternatives' success is largely attributable to the strength and comprehensiveness of the site's administrative and management systems. Over the past two years, the site coordinator has developed and refined systems for client intake, scheduling and pre-screening, volunteer management and training, and return processing. These systems have been critical to streamlining the process, improving customer satisfaction, and cutting labor costs.
- **Volunteer Management.** One of Alternatives' biggest challenges has been to figure out the best ways to use volunteer labor. On one hand, the program would not run without volunteer labor; on the other hand, volunteers can be unreliable, slow, and sloppy. Alternatives has taken two approaches to the care and feeding of volunteers. The first is to provide them with top-notch training and to find a role that is appropriate for them. Using materials adapted from the IRS's VITA program and the Center for Economic Progress in Chicago, Alternatives' site coordinator has created a streamlined but comprehensive training program, one that gives volunteers just what they need but no more. Volunteers are

also allowed to select their own jobs from three clearly defined volunteer roles: greeter, preparer, and specialist. The second approach is to provide volunteers with plenty of support and encouragement. Volunteers have food at every site. The site coordinator is friendly and enthusiastic. And Alternatives has reasonable expectations of what its volunteers can do—and what they can't do.

- **Using Institutional Partners.** Although Alternatives runs the VITA site itself, its community partners are instrumental in volunteer recruitment, marketing, and coordinating "Saturday Super Sites." Site volunteers are recruited mainly by the local living wage coalition and from area community colleges. This past year, the local United Way identified nonprofits to host and coordinate the super sites. With these partnerships in place, Alternatives saw a significant increase over the previous year in the number of returns filed.

Customer Relationship Management: Getting, Keeping, and Migrating New Customers

Alternatives' long-term strategy depends on product marketing and customer migration once clients are in the door. Credit union pamphlets and marketing material for a full array of products and services (individual development accounts, credit counseling, financial education, car loans, lines of credit) are distributed throughout the VITA site. More importantly, member-services' staff try to be on hand to talk with customers waiting for their turns with a tax preparer. Staff may start the conversation with a financial "Wish List" questionnaire, which helps customers talk about and begin quantifying their financial goals. The items on the wish list serve as talking points to inform customers about credit union services and then direct qualified customers to the loan department, if they are seeking a RAL. But member services representatives do not push the RALs, and are trained to redirect people to apply for a line of credit. Because the VITA volunteers doing the actual tax preparation are too busy to counsel each individual customer, the VITA site coordinator has begun a credit-counseling program during the off-season and trains volunteer credit counselors who also work during tax season with VITA site customers.

Outsourcing Tax-Prep Services to Community Partners: Legacy Bank

Legacy Bank, a Milwaukee-based state-chartered commercial bank, has taken a more detached approach. The bank has hosted a local nonprofit's tax-prep site in its lobby since 2000. Although the site is managed and run by the Milwaukee Asset Building Coalition, a partnership among community organizations, government representatives and agencies, and financial institutions, nearly half of Legacy's customers took advantage of the service.

Legacy Bank's Operational Model

- **Site:** For the first two years, Legacy's site was open from 8:30 a.m. to 1:30 p.m. every Saturday, starting in mid-January to April 15th. (The site closed at noon in subsequent years.) The site handled 30-35 clients at any given time, the vast majority of whom were already customers.
- **Staffing:** The Milwaukee Asset Building Coalition provides volunteers and staffs the site. Legacy staff members are on hand to open accounts if need be, but new accounts are not a major focus. In an effort to get more of its customers into the VITA program, Legacy directs customers to three other VITA sites around the city. A Legacy staff member stops by each partner site once a week to check in and begin the process of opening any new accounts.
- **Volunteer Management:** The coalition manages all volunteers.
- **Community Partner Roles:** The Milwaukee Asset Building Coalition manages the EITC/VITA campaign, as described above. Legacy ensures that its core community partners let their clients know about the tax credits and free tax-preparation sites that are most convenient for them.
- **Integration With Regular Operations:** The VITA site was closely tied to Legacy's ongoing operations as another tool for educating customers and building assets.
- **Marketing and Outreach:** Marketing was done almost exclusively through Legacy's network of community partners, with some internal marketing to existing customers (flyers, mailings, etc.), and additional word-of-mouth.

Over the long term, Alternatives' mission-driven emphasis is to help its customers overcome chronic debt and to become asset builders. Free tax preparation and low-cost loan products are the doorway to asset-building as people move along the "Credit Path"—a four-stage model developed and popularized by Alternatives that describes how the unbanked move from borrowing to saving to investing:

1. **Transactor:** Members who need to cash checks, purchase money orders or official checks, get change, or wire money to others.
2. **Saver:** As members develop financial skills, they begin saving—through IDAs and CDs.
3. **Borrower:** Members use responsible borrowing as a financial tool that can lead to greater wealth. Starter consumer loans—car loans, personal loans, VISA cards, and lines of credit—build credit history and help members move towards larger loans.
4. **Owner:** By learning to save and developing a good credit record, members move toward becoming owners of homes or businesses. Alternatives offers a variety of home and business loan products. But a model is just a model, and CEO Bill Myers readily concedes that customers rarely move in a straight upward arc—it often takes them much longer than expected to inch along. "We've got a clear idea of how people move through these products, but we are still figuring out the metrics." What is a reasonable period of time for members to move through products? How long do I hold onto them? What is the right mix of members—those starting, those in the middle, some well along the path? "We may not nail the numbers, but how do we find metrics that are good enough?"

Key Customer Relationship Management Considerations

- **Aggressive Marketing.** From the moment clients step through the door, Alternatives begins engaging them in a process that is part customer education, part marketing. Using the "Wish List" survey, the customer relations department develops a database profile for each customer and begins marketing the benefits of credit union membership. As Myers notes, some people open an account, then close it after they get their refund. "It's our job to convince them to keep it," he adds.
- **Replenishing the Customer Base.** Non-member VITA customers, who were initially attracted to the credit union by the VITA and Refund Express Loan programs, were often unbanked community members with lower incomes than most of the credit union's existing members. But, the ratio of new members to existing members has been declining. During the first year of its operation, 50% of the VITA site's customers were non-members; the second year, only 40% were non-members. In order to keep pace with new member acquisition, Alternatives has to grow the size of the program.
- **Meeting Customer Demand.** Alternatives' foremost goal for the VITA program has been the acquisition and education of low-income customers. The first year, Alternatives did not offer a rapid refund loan product, but it turned out to be a main driver for target customers. Alternatives' decision to develop the product was a simple matter of meeting customer demand, and it is now looking at ways to offer the product for free. "Our goal is to get people into the banking system," Myers says. "But what if they can have their cake and eat it too—if we can get them quick refunds and get them accounts?"

Putting it All Together: Performance, Outcomes, and Challenges

Customer Acquisition. The VITA program and REL have proved remarkably successful in attracting and retaining new members. The credit union opened 60 new accounts in the 2004 tax year. In 2002 and 2003, it opened 122 and 66 respectively, two-thirds of which are still active. Still, Alternatives has been forced to cap the size of the program because of the high cost. Myers estimates that the credit union could have processed 50% more returns than the 904 returns it did this year. On the other hand, Alternatives' model has won national acclaim, and the credit union has garnered outside grants to offset its expenses.

Data Tracking and Costing. Alternatives' migration strategy is tied closely to improved data tracking and costing. Back-of-the-envelope estimates place the cost of each new member somewhere between $40 and $50, but precise figures aren't yet available. The systems for tracking customer migration through specific products are currently under development. When complete, the loan-tracking system will show if a customer has made deposits/withdrawals to accounts, or opened and closed a loan over a given amount of time, thus making it possible to track customer patterns over time.

Ancillary Benefits. Alternatives has realized a number of ancillary benefits, both financial and non-financial. The credit union's ability to attract new community partners underscores the amount of goodwill capital generated by the VITA program. This past year, partners also contributed over $20,000 of in-kind donations. In addition, Alternatives' reputation as a national leader in retail financial services (and, more generally, community development finance) has attracted deposits and grants from institutions around the country.

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[1] The IRS's Volunteer Income Tax Assistance (VITA) Program offers free tax help to families whose incomes are $36,000 or less. Located at community and neighborhood centers, libraries, schools, or shopping malls, VITA sites are typically run by nonprofit organizations.
In most cases, local volunteers prepare returns and staff the sites.

[2] National Tax Assistance for Working Families Campaign, Report to the Annie E. Casey Foundation, Steve Holt, Holt & Associates Solutions, www.aecf.org.

[3] These systems include the following: an appointment script that screens out unqualified customers and ensures that they show up with proper documentation; an intake form that streamlines the tax-prep process and feeds into customer education and marketing; and, a client checklist for each client file, which tracks the progress of each return and reduces errors.

USING FRINGE PRODUCTS AS A DOORWAY TO THE MAINSTREAM:

Building Check-Cashing Partnerships

In the 1980s and 1990s, the departure of banks and credit unions from low-income neighborhoods left community residents bereft of mainstream financial services. Without competition from mainstream financial institutions, check-cashing outlets moved in to fill the void. As the industry burgeoned over the past 25 years, even its harshest critics had to concede that check cashers fill a critical gap: providing instant liquidity for neighborhood economies based predominantly on cash.

The core business of a check-cashing outlet (or "currency exchange" as they are called in some states) is cashing payroll and government checks. Check cashers are typically open on evenings and weekends, and they offer services unavailable at mainstream institutions. Customers can purchase money orders, pay utility bills, make wire transfers, buy pre-paid phone cards, and get documents notarized. Many also offer payday loans—products that have increased profits but also tarnish the industry's reputation.

The check-cashing industry has more than doubled in size from 1994 to 2000. It now comprises over 6,000 outlets, which process over 180 million checks per year and generate $1.5 billion in fees on $60 billion worth of transactions. Citing high costs and abusive business practices, regulators and consumer advocates have called for tighter industry controls. Twenty states now regulate fees and other practices in the industry.

But the industry continues to thrive for the simple reason that it addresses low-income consumers' financial service needs in ways that are convenient and accessible. In fact, surveys have shown that many consumers who regularly use check-cashing outlets also have depository accounts. Consumers who have only a savings account, for instance, may need to purchase money orders or use bill-payment services for paying rent or utility bills. Check-cashing outlets provide all of these services, plus they offer stamped

CHAPTER SUMMARY

PRODUCT/STRATEGY DEFINITION — Partnership between a mainstream financial institution and a check-cashing outlet that offers the each institution's core services at a shared retail site. In one case, check-cashing tellers function as agents for the credit union, handling member transactions through real-time electronic financial networks. In the second case, the check casher and credit union co-locate in the same commercial space but conduct most transactions independently.

CRITICAL SUCCESS FACTORS —

Æ **Target "straddling" customers.** Many customers want and need the services of both institutions. The key is to identify those customers and create a blended retail platform

Æ **Compatibility.** Partners have to trust each other, and both need to realize a reasonable business up-side.

Æ **Pricing.** Pricing structures have to be acceptable to all partners and appropriate for target customers.

Æ **Customer migration.** Education and marketing strategies need help check-cashing customers move towards mainstream products.

INSTITUTIONAL FIT—This strategy is appropriate for financial institutions in low-income communities where customers need or want immediate access to cash and are accustomed to paying their bills through bill-payment services or with money orders. The financial institution should be ready to offer "starter" products (free checking, low-balance accounts, credit counseling, and credit repair). Institutions should also be prepared to build trust with customers who have had bad experiences with financial institutions in the past. This may include reconsidering whether or not its ChexSystems policies exclude the customers it hopes to attract.

envelopes so customers can take care of all their business in one convenient stop. Alternately, many consumers living paycheck-to-paycheck can't afford to wait several days for a payroll deposit to clear, so they may cash a payroll check with a check casher so they can deposit the cash needed to cover their personal checks. For many low-income consumers, minimum-balance requirements, service fees, and NSF charges all add up, making checking accounts expensive when cash flow is tight. Likewise, many vendors in low-income communities, including landlords, refuse to accept personal checks.

Overall, consumers have a positive feeling toward check cashers, especially compared with mainstream institutions. A 2001 study by the Federal Reserve Bank of Chicago found that 26% of low- and moderate-income households had a "distaste" for checking accounts that was rooted in mistrust of banks. Likewise, surveys and focus groups conducted in Southwest Baltimore, a predominantly low-income, African-American community, found that residents prefer not to use banks. Fees and minimum balance requirements caught many people by surprise, and potential customers reported feeling disrespected by bank employees. In contrast, residents viewed their check cashers as friendly and respectful. Simply put, check cashers do a good job of meeting the transactional needs of many low-income consumers, but they don't offer products that lead to long-term savings and asset building—essential steps toward financial stability.

But what if there were a way to combine the services and convenience that check cashers offer with the opportunity for savings and asset development presented by mainstream financial institutions? In 2000, the Bronx-based Bethex Federal Credit Union and RiteCheck Financial Service Center, which is also based in New York, pioneered the first-ever partnership between a mainstream financial institution and a check casher. The partnership uses RiteCheck's distribution network as a platform for offering transactional, depository, and credit products to unbanked consumers. Bethex members can now go to any RiteCheck location to conduct their credit union business, while RiteCheck customers can obtain information about the credit union's services and sign up for membership at the check-cashing outlet. Three years later, building on the Bethex/RiteCheck model, the Bon Secours of Maryland Foundation (the community development arm of Bon Secours Health System) and Operation ReachOut Southwest (a coalition of Baltimore churches and neighborhood organizations) partnered with SSA Baltimore Federal Credit Union and A&B Check Cashing to launch Our Money Place, a one-stop shop for financial services in one of Baltimore's most impoverished neighborhoods. This chapter explores the development, benefits, and inner workings of these two partnerships.

Product and Strategy Design: Meeting Customers Where They Are

Bethex Federal Credit Union and RiteCheck: Pioneering Partners

Bethex Federal Credit Union was the first mission-driven, low-income credit union to establish a partnership with a check-cashing business. Although the partnership took three years to launch, due to strenuous regulatory approvals, legal hurdles, and operational challenges, the arrangement itself is relatively simple. Bethex members have access to credit union services at the teller windows of all RiteCheck stores. These services include the following:

- Deposits
- Free check-cashing service on Bethex checks (the credit union pays these fees)
- Reduced fee check-cashing on non-Bethex checks
- Loan payments
- Withdrawals
- Loan applications

Deposit transactions are conducted through point-of-banking terminals located at the teller window. With this technology, the RiteCheck tellers can route deposits in the same way that Bethex tellers can—and Bethex picks up the $1.50 fee for the service. Bethex has access to RiteCheck customers, whom they can recruit through posters, flyers, and membership applications on hand at the RiteCheck stores. The company, in turn, earns fees for the various services it provides for Bethex members, and it can market additional services when credit union members come in to transact business.

Our Money Place: A "Food Court" for Financial Services

Formation of the Partnership: The Our Money Place partnership was the outgrowth of a decade of work in the areas of community and economic development by the two principal community partners, Bon Secours of Maryland Foundation, the community development arm of Bon Secours Baltimore Health System (the neighborhood's largest employer), and Operation ReachOut Southwest (OROSW). After the last bank left Southwest Baltimore in 1998, Bon Secours and OROSW launched a comprehensive community planning process in which residents identified economic development as a top priority. In 2002, Bon Secours launched a Volunteer Income Tax Assistance (VITA) program aimed at helping more households claim the Earned Income Tax Credit. The program did 100 returns the first year; by 2004, the number was up to 700 returns. Equally important, Bon Secours established itself as a leading provider of financial-education and counseling for low-income families, and its staff gained valuable operational and product-development experience.

The same year Bon Secours launched its VITA program, OROSW and Bon Secours formed a planning team and began exploring ways that they could attract a bank or credit union to the community. With assistance from the FDIC, the partners prepared a study of economic opportunities and began approaching financial institutions. They also conducted focus groups and surveys, and talked to residents about their financial needs and habits.

The research yielded some surprising findings. First, liquidity was the overriding financial need. Neighborhood residents needed immediate cash to pay for food, bills, and household expenses. Second, residents had positive feelings toward their check cashers. Customers chose check cashers because they provided immediate access to cash, had convenient hours of operation and good locations, provided good customer service, and offered low rates for transactions. Even consumers with bank accounts sometimes used check cashers to pay bills and purchase money orders. Finally, customers who said they wanted bank accounts were nevertheless wary of banks because of past discrimination and hidden fees.

A few months later, the planning team visited Bethex, which encouraged them to find a check-cashing partner that could anchor their financial services initiative. Bon Secours/OROSW set aside plans to find a bank or credit union that would come into the neighborhood on its own, and instead set out to partner with both a check casher and a financial institution, which, together, would offer customers the right mix of products and services.

Our Money Place Customer Profile:

- Liquidity Number One Priority
- Positive Opinion of Check Cashers
- Mistrust of Banks
- Product Choice Based On:
  Convenience, Customer Service, Fees
- Even Banked Customers Use Non-Bank Service Providers for Bills and Money Orders

State banking regulators introduced the Bon Secours/OROSW planning team to SSA Baltimore Federal Credit Union, which was looking for a way to reach underserved communities through "Neighborhood Contact Offices," non-cash branches housed at churches, community centers, or community-based organizations. The credit union proposed to open a non-cash office at the Bon Secours community center, where an SSA Baltimore representative could open accounts, handle loan applications, and accept non-cash deposits. Bon Secours and OROSW declined SSA Baltimore's initial offer, arguing that residents needed access to cash. The dialogue continued over a number of months as Bon Secours and OROSW formed Our Money Place, the nonprofit corporation that would eventually anchor a full-service financial service center. Meanwhile, state banking regulators also introduced the Bon Secours/OROSW planning team to A&B Check Cashing, a Maryland-based company with a reputation among state regulators as an upstanding business. Brian and Alec Satisky, co-owners of A&B and active members of the national check cashers' association, jumped at the opportunity to open a new branch in Southwest Baltimore in partnership with a community-based organization.

In March 2003, the partners launched Our Money Place, a financial services center located in the Westside Shopping Center in Southwest Baltimore. With grants to the Bon Secours of Maryland Foundation, the Annie E. Casey Foundation underwrote the formation of the Our Money Place, Inc. nonprofit corporation, whose board included representatives of OROSW and Bon Secours. With these funds in hand, OMP finalized the terms of partnerships with both A&B and SSA Baltimore and leased a former bank space that required only minor rehabilitation to accommodate the three partners. The Our Money Place nonprofit subleases retail space to SSA Baltimore and A&B at a discount pegged to membership growth (for SSA Baltimore) and revenue (for A&B), but the commercial partners maintain control over their respective operations, advertising, and staffing. Our Money Place also purchased an ATM, which is operated by the credit union. The ATM gives members access to cash and deposits. (SSA Baltimore and Our Money Place share ATM fees, a major source of operating revenue.)

OMP Products and Services: The strength of Our Money Place comes from the blend of cash and non-cash services that it offers. A representative from SSA Baltimore is on duty 30 hours per week to open accounts, take deposits, and process loan applications. SSA Baltimore and A&B have a separate agreement in which SSA Baltimore offers A&B customers a reduced membership fee for the first 30 days and SSA Baltimore members receive discounted fees from A&B when they cash official government or SSA Baltimore checks.

A&B Check Cashing fulfills customers' needs for immediate cash, and generates a 60-70% of the foot traffic. A&B tellers offer check cashing, money orders, bill payment, notary, and wire transfers. In negotiating the partnership with Our Money Place's community board, A&B did make a pair of important concessions. It is not allowed to sell lottery tickets, and it agreed to review any rate changes or new products with Our Money Place's board of directors. In exchange, A&B received a free year's rent and scaled profit-sharing in subsequent years.

The Our Money Place nonprofit partners employ a full-time financial services recruiter, who is stationed in the Our Money Place lobby and is on hand to inform customers about financial-education classes, financial counseling, free tax preparation, and career development. (These and other services are at the nearby Bon Secours Family Support Center.) Our Money Place also employs a full-time financial advisor who counsels community residents about budgeting, financial planning, establishing credit, credit rehabilitation, and tax preparation.

One key to Our Money Place's operational success has been the compatibility of services at the site. Both SSA Baltimore and A&B benefit from the credit union's non-cash branch. SSA Baltimore is able to keep its costs down, partly due to the rent subsidy that it receives and partly because it is a non-cash office. A&B benefits from credit union members who are cashing checks. The credit union's ATM gives members access to cash but doesn't seem to affect A&B's check-cashing business.

In addition to having the right mix of products, Our Money Place has been successful because it delivers those products in the right place at the right time, emphasizing **location** and **hours of operation**:

- **Location.** Our Money Place is in a commercial center with high population density and plenty of foot traffic, and it is accessible by public transportation. As one observer noted, "A mile makes a big difference in whether or not someone will visit your business." (Another SSA Baltimore branch that is housed in a church has not been nearly as successful.) Our Money Place also looks and feels more like a check-cashing outlet than a bank, an aesthetic that customers prefer.
- **Hours of Operation.** Check cashers usually keep longer hours than credit unions, especially evenings and weekends. While SSA Baltimore's side of Our Money Place does not keep these same hours, A&B does. As a result, Our Money Place has emerged as one of the most profitable branches in the chain, and the customer volume that it creates has translated into more members for SSA Baltimore.

How Check-Cashing Partnerships Benefit the Partners

The check-cashing partnerships are strong because they make good business and strategic sense for all of the partners. Consider the benefits:

The Credit Unions

Bethex FCU. Bethex needed new branches to serve credit union members scattered throughout the Bronx. With busy work schedules and families to manage, many Bethex members had trouble coming to one of the credit union offices to conduct business. With few resources to open new stand-alone branches, the partnership with RiteCheck offered instant branch architecture at almost zero cost. With existing technology, RiteCheck tellers can handle routine transactions for Bethex credit union members. Although Bethex thinks that it could attract more new

Comparison of Bethex and SSA Baltimore Check-cashing Partnerships

	Bethex/RiteCheck	SSABFCU/A&B Check Cashing
Number of joint sites	11 RiteCheck stores	1 site - OMP financial center
Staffing at site	RiteCheck tellers handle check casher and credit union transactions; periodic visits by Bethex staff	1-2 A&B tellers 1 SSA teller (30 hrs/week) OMP community recruiter
ATM on site	No	Yes
Fees for credit union customers transacting business at the check casher	Check cashing: free on Bethex checks; 1.1% on non-Bethex checks Deposits/withdrawals: free Other Rite/Check Services: fees are the same as for other customers	Check cashing: 50% discount on official checks and SSA checks for the first month of membership; regular price thereafter. Deposits/withdrawals: N/A Other A&B Services: fees are the same as for other customers
Fees credit union pays check casher for member services	Check cashing: $4.50 to $5.50 for checks under $1000; 1% on checks over $1000. Withdrawals: $.38 at time of transaction plus $1.50 NYSE fee Deposits: $.90 plus $1.50 NYSE fee	None.

members if it had a staff presence at the RiteCheck sites, the low-cost posters and flyers have yielded modest results in terms of new membership.

SSA Baltimore. Founded in 1938, SSA Baltimore's original charter was to serve the financial needs of employees of the Social Security Administration. At its height in the 1970s, the SSA had 30,000 employees in the Baltimore area, but government downsizing and attrition had driven employment down to 16,000 by 2002. The credit union wanted to expand its membership in Baltimore City, and one of the options was to expand service citywide by coming up with a plan to better serve Baltimore's low-income communities. With low overhead and strong community partners, Our Money Place offered an inexpensive way for SSA Baltimore to open a branch in an underserved community, reap the benefits of an expanded field of membership, and deepen its business relationships with the community.

The Check Cashers

RiteCheck. The affiliation with Bethex offers accounts and loans—services not offered by the check-cashing industry. Perhaps even more important, the national recognition that the partnership garnered gave RiteCheck and, to a lesser extent, the industry as a whole, a level of public understanding and acceptance it never had before. Joy Cousminer, Bethex' founder and president, publicly acknowledged that check cashers provide a valuable service that mainstream financial institutions have been unwilling, or unable, to provide. Noting that check cashers have better access to the very customers that the credit unions hope to reach, Cousminer was the first credit union leader to argue that check cashers are not "villains," but rather potential allies whose products merited emulation. In lining up all the necessary regulatory approvals, and making a strong case that these partnerships represent an opportunity to introduce check-cashing customers to the financial mainstream, Bethex paved the way for other banks and credit unions to establish similar partnerships.

A&B Check Cashers. When Operation ReachOut Southwest first floated the idea of a community-credit union partnership, executives at A&B were immediately interested. They recognized that the check-cashing industry had a bad reputation among credit unions, regulators, and public interest groups, and they wanted to correct what they saw as a misperception of their company and the industry at large. Beyond image repair, Our Money Place was a good business opportunity. With high volume, a central location, and close ties to the community, the partnership made good financial sense.

Community Partners

OMP Nonprofit Partners. The community partners' main goals were to improve the neighborhood and the lives of the families that lived there. Helping families achieve economic self-sufficiency was the ultimate goal, and offering an appropriate mix of affordable and accessible financial services was a central piece of the puzzle. Fees generated from the partners over time should pay for the OMP space and operations, and help offset some of the costs of providing financial-education, counseling, and tax services.

Marketing and Outreach: Leveraging Existing Customer Habits

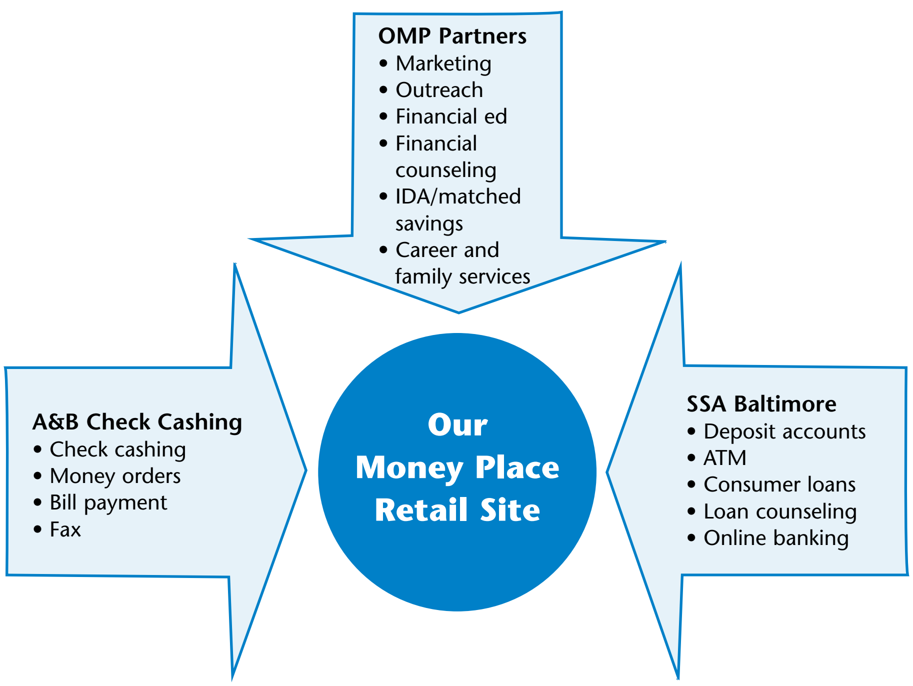
Bethex

Bethex took a conventional approach to marketing and outreach. The credit union produced promotional and orientation videos, in both English and Spanish, to be played in all RiteCheck outlets in the Bronx. The video complemented brochures and posters that were also available. Bethex also ran a series of one-minute radio spots, in English and French, targeted at African immigrant communities in the Bronx. Finally, two credit union staff members visited check-cashing stores and spoke with customers and tellers about the credit union. During their visits, staff members also picked up membership enrollment forms and distributed the promotional materials.

Our Money Place

The marketing and outreach strategy for Our Money Place has evolved as the business has grown. Initially, the Our Money Place nonprofit partners were the principal marketers, speaking at community meetings, canvassing

Our Money Place Customer Services



the neighborhood with flyers, and conducting outreach to churches and community-based organizations. SSA Baltimore ran radio ads and sent letters to residents within a two-mile radius of the new branch. (The credit union's use of billboards proved less successful.) A&B highlighted the new branch in its regular radio, TV, and newspaper advertisements. Much of the early traffic was generated by this outreach and by word-of-mouth.

As Our Money Place has taken off, A&B has become the main draw for customers. Early on, the check-cashing side of the business generated roughly 80% of the customer volume, though that ratio has since dropped to 60-70%. Our Money Place, as a whole, has relied on this traffic and customer loyalty as its principal marketing lever. The Our Money Place community partners have been able to leverage these existing customer patterns to offer other products and services, including tax preparation, home-ownership classes, and financial counseling. The Our Money Place community partners use Our Money Place as a platform for guiding customers to an array of complementary social service programs: financial-education classes, employment programs, and family services. Over time, the hope is that these services will help people migrate toward the credit union and into the financial mainstream. To date, Our Money Place has yielded nearly 700 new members for the credit union. Most members have low-balance, low-margin checking and savings accounts, but it is still relatively early in the customer development cycle. Eventually, the credit union would like to see these new members move toward higher-margin products like loans, home mortgages, and depository accounts with higher balances.

Marketing Our Money Place

Start-Up Marketing

- Community-Based Outreach: Churches, CBOs, Canvassing
- Direct Mailing
- Light Mass Media: TV, Radio, Newspaper

Performance & Outcomes: Benefiting Customers While Creating Economic Value

Bethex

As of March 2005, the credit union acquired at least 485 new members from the check-cashing partnership, though the figure is probably higher since the credit union lacked a formal system for tracking new-member referrals. Tellers simply ask new members how they heard of the credit union, but sometimes the tellers forget to ask.

But, the bigger picture is how Bethex helped shift how financial institutions think about how they serve unbanked and underbanked markets. Bethex realized customers' most pressing need was for liquidity—and that check cashers met that need in ways that other institutions did not. Many credit unions viewed check cashers as predatory businesses, and many criticized Bethex for its partnership. Three years later, however, Bethex is now widely recogized as a pioneer for finding creative, but also pragmatic, solutions to bringing marginalized customers into the mainstream.

Our Money Place

In just over three years of partnership, Our Money Place has managed to create real value for SSA Baltimore and A&B Check Cashers, while providing critical financial services for a growing base of member-customers. For A&B, Our Money Place developed into one of its most profitable outlets, and the partnership has been a public relations boon to a laudable company in an industry with a less-than-stellar reputation.

But, the greatest value has arguably accrued to SSA Baltimore. In the short term, Our Money Place was a central component of SSA Baltimore's plan to expand its charter by opening low-cost offices in Baltimore's under-served communities which, in turn, was a prerequisite for gaining access to higher-income members in the City of Baltimore. Just a few years ago, SSA Baltimore had 40,000 members, but it now boasts nearly 44,000. With over $280 million in assets, it is now one of the largest credit unions in the state of Maryland. It represents core common sponsor groups and more than 100 select employee groups. But Our Money Place has been more successful than the credit union had hoped for. Earlier this year SSA Baltimore launched a membership recruitment drive at Our Money

Place. From Q1 2005 to Q2 2005, membership expanded from 627 to 664 (+6%); deposits jumped from $525,000 to $571,000 (+9%); and outstanding loans grew from $156,000 to $184,000 (+18%). While the short-term benefits have been immediately apparent, SSA Baltimore also expects a long-term return on its investment. As a part of its expansion plan, the credit union opened two offices elsewhere, but Our Money Place has been far and away the most successful of the three.

Going into the partnership, the credit union never expected Our Money Place to be a profit center, but executives now say the branch is likely to pay for itself in time. ATM fees have been much higher than anticipated, providing stable operating income. In the coming year, the credit union hopes to develop a handful of new products targeted to lower-income members, including payday alternative loans and second-chance checking accounts. Yet the clearest indicator of economic value is the credit union's willingness to invest even further in the unbanked market. SSA Baltimore is in the process of establishing a similar non-cash office in East Baltimore. Developed with the East Harbor Community Development Corporation and MicroFinance, the partnership will focus on Baltimore's burgeoning Hispanic community.

[1] Caskey, John, "Check-Cashing Outlets in a Changing Financial System," (Philadelphia: Federal Reserve Bank of Philadelphia, 2002) http://www.phil.frb.org/files/wps/2002/wp02-4.pdf

[2] Rhine, Sherrie L.W.; Toussaint-Comeau, Maude; Hogarth, Jeanne M.; and Greene, William H. "Role of Banks and Nonbanks in Serving Low- and Moderate Income Communities," (Chicago: Federal Reserve Bank of Chicago, 2001) http://www.chicagofed.org/cedric/files/cfmacd_rhine.pdf.

[3] Our Money Place is also the name of the nonprofit corporation set up by Bon Secours and OROSW to house the financial center and to provide a host of financial education and family support services.

The Value of Partnership: SSA Baltimore

Short Term Benefits

- Expanded Member Base
- Membership Growth: 14,000 to 43,000
- Surge in Loan Volume

Long Term Benefits

- Customer Acquisition
- Customer Migration
- New Product Development
- ATM Fees

STORED VALUE CARD TYPES AND FEATURES

Stored Value Card Features and Capabilities	**Closed Loop** Can only be used for the issuer's products or for limited purposes. Examples include the Starbucks card, or a Borders gift card.	**Open Loop** Similar to a debit card but without a linked account. They allow a variety of uses, including bill-payment, ATM withdrawals, and point-of-sale purchases from grocery stores and other retailers. Open-loop cards can be **branded** or **unbranded:**	
		Unbranded cards are linked to point-of-sale and ATM networks and use PIN-based technologies for sales and withdrawals. Examples include grocery store PIN networks and public benefit cards	**Branded** cards carry the Visa, MasterCard, Discover, or American Express logo and use signature-based technologies that allow users to make purchases anywhere the brand is accepted—retailers, restaurants, auto-repair shops, online retailers, etc.
Point-of-sale purchases	Yes Within issuer's network (can't use a Starbucks card at grocery store)	Yes Anywhere with PIN keypad or ATMs	Yes Anywhere with Visa or MasterCard logo
Reloadable	Depends on issuer and type of card	Depends on issuer and type of card	Depends on issuer and type of card
Direct Deposit	No	Yes Depends on set-up	Yes Depends on set-up
Risk of Overdraft	None	None	Slight Depends on reconciliation

As of 2004, all federal food stamp benefits were delivered via electronic benefits transfer cards.

As the markets and technology develop, stored value cards could also become a powerful tool for reaching the unbanked. In principle, financial institutions could use SVC technology to offer the unbanked customers the services they currently receive from non-bank financial-service operations—but at a fraction of the cost. Refillable, branded SVCs would function like a debit card, allowing customers to do almost anything they could do with a credit card: make purchases over the Internet, buy groceries, pay for car repairs. Customers could receive direct deposits, withdraw funds from ATM machines, conduct point-of-sale debit purchases from the local grocery store, pay bills online, and buy money orders from the post office. From the customer's perspective, SVCs would function like a low-cost, stripped-down bank account, but with a lower risk of overdraft. But because SVCs are explicitly not depository accounts, their cost structure is much lower—an important distinction and competitive advantage over traditional entry-level retail banking products. With less overhead than regular bank accounts and a profitable fee structure, SVCs would offer financial institutions a viable, sustainable tool for serving the unbanked.

Over the past two years, a pair of RFSI institutions, University Bank in St. Paul, Minnesota, and Central Bank of Kansas City (Missouri), have emerged as innovators in serving the unbanked through stored value cards. Both institutions tried to create a "personal spend card": a stored value card that combined the functions of the single-purpose “silo” products that are typical in today’s market, while also retaining the ownership and administration of the account underlying the SVC cards (see sidebar). The rationale for the multi-purpose card is quite straightforward. If this product is to be an alternative to a checking account or ATM-enabled savings account, then it must have the same versatility and functionality.

The rationale for actually owning the card, and managing the underlying account, is a bit more complex. If successful, the underlying funds would bring more assets under management for the issuing institution. Owning the accounts also means the issuing institution could mine user data, allowing cross selling and product development. Simply put, if you own the platform, it’s easier to link to other products. Car loan payments could be automatically deducted from a customer’s bank card.

At least that is the promise. As with any emerging technology, there are significant hurdles to be overcome. In practice, the providers of stored value cards are still a ways away from having the kind of fully integrated, re-loadable general spend card that the technology promises. There are regulatory issues that need to be resolved, and, as both banks discovered, credit card companies and third-party processors often complicate matters further. Nevertheless, both Central Bank and University Bank believe that this is the platform of the future, and were therefore willing to take risks and forge ahead so they could exploit new opportunities.

This chapter explores the institutions’ product development process—planning and product design, project management, relations with third party vendors, operations, product testing, pricing, and marketing—highlighting the salient lessons from their experience. As of this writing, both institutions are still in the pilot stage, but their experiences underscore the endemic challenges of being first movers in a new market. Both institutions struggled with emerging technologies, vendor relationships, and regulatory uncertainties that later entrants to the market will likely not encounter, at least not to the same degree. Yet they also gained valuable insights into their target market, SVC technology, and the process of product innovation.

The Personal Spend Card:

THE IDEAL STORED VALUE CARDS

University Bank and Central Bank both wanted a deceptively simple product: a stored value card that has the flexibility of a credit card, the functionality and consumer protections of a bank account, and the convenience of cash. But those characteristics did not exist in a single product, so they sought a composite product by fusing different types of stored value cards, complex banking networks, infrastructure, and functionality. The ideal product would have the following features and conveniences:

- **Built-in overdraft protection**. Like a debit card, purchases and cash withdrawals would come from a known positive account balance, minimizing the risk of overdraft.
- **Lower identification requirements.**
- **An entry-point into the financial mainstream other than a bank account.** SVCs are a good starter product for customers who don’t want a traditional bank account.
- **The instant-cash convenience of a check-cashing outlet.** Customers could walk in with a paycheck and walk out with the plastic equivalent of cash—at a lower cost than traditional check-cashers charge.
- **Bill Payment.** Using the bank’s electronic payments capabilities, SVCs offer a good, low-cost alternative to checking accounts or money orders.
- **Reloadability.** SVCs offer a flexible, convenient platform for reloading funds at retail money-service businesses, through direct deposit and electronic funds transfer, or through payroll deposits.
- **Remittances.** For the burgeoning immigrant market, SVCs offer a safe, convenient alternative for making remittances to friends and families in other countries.
- **Retail purchases.** Branded cards allow customers to make purchases anywhere the card logo is accepted.
- **Credit-building.** If linked to overdraft protection or a line of credit, SVCs could offer an opportunity to build or repair credit history, though credit bureaus would need to change their reporting guidelines to allow SVC data.

Source: PULSE EFT Association

Product and Strategy Design: In Search of the Personal Spend Card

University Bank: Building a Bridge Product for the Unbanked

Over the years, University Bank in St. Paul, Minnesota, has developed a deep knowledge of the unbanked market. University Bank's staff reflects the demography of the neighborhood, so customers feel comfortable banking there. The bank is also centrally located, accessible to both foot traffic and public transportation. Yet one of the greatest challenges has been developing products for low-income customers, few of whom qualify for conventional banking products. For customers living paycheck-to-paycheck, the most important feature of their financial life is getting access to cash at the lowest possible price.

Hence, the proliferation of check-cashing outlets in the bank's neighborhood. In 1996, University Bank had five check-cashing stores within a six-block radius. The check-cashers were doing a brisk business, but David Reiling, University's chairman and president, thought the bank could offer better products at a lower cost while also moving the check-cashing customers into a banking relationship. In 1996, University Bank bought one of the check-cashing companies and moved it into the bank's lobby on the teller line. In just two-and-a-half years, the University Bank has moved over 100 check-cashing customers into savings accounts.

But the bank also realized that not all of its check-cashing customers wanted or could qualify for a bank account. Some didn't like the rules and fees, others didn't trust banks. Some couldn't manage a bank account and others simply didn't want one. Furthermore, only 20% of the bank's walk-in customers were able to meet the bank's minimum requirements for opening an account. How could University Bank develop a profitable relationship from prospective customers who, even under the best circumstances, would likely carry low balances and be high-volume transactors?

In 2002, University Bank began developing its stored value card, which aimed to give customers a banking product that combines the retail features of a bank account—a place to keep money, the ability to withdraw cash, make electronic payments, debit purchases—with the benefits of a credit card—retail and online purchases, flexibility, the absence of cash—but without the risks associated with either one.

"We really wanted to design a product that is lower cost than a check casher but functionally similar to a bank account," Reiling says. "The idea was to use technology in order to take unbanked customers from a check-cashing model to something much closer to opening a bank account." Once customers had established a relationship with University Bank and had accustomed themselves to bank-like transactions through the SVC, Reiling hoped they would eventually move into a traditional banking account and on up into other financial vehicles. "We want this to be the first step on the road to asset development," said Reiling.

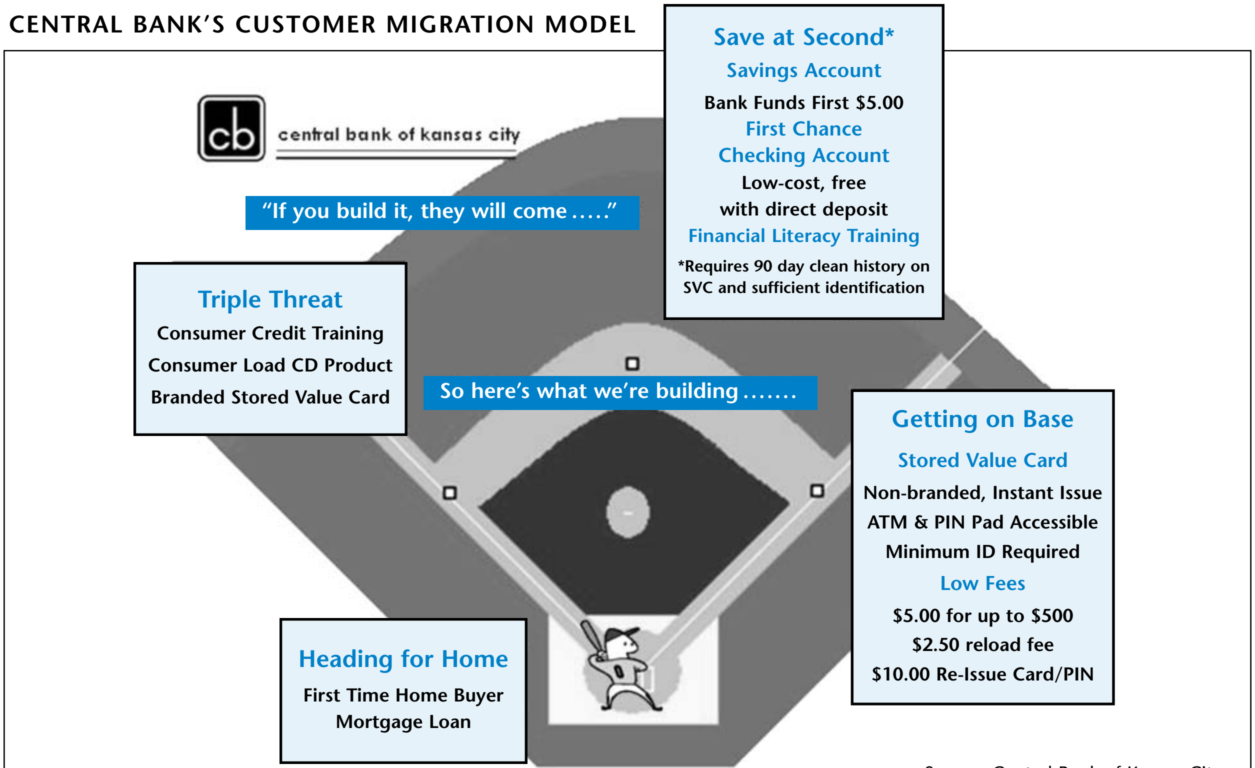
The bank has offered a non-reloadable gift card since November 2004, but it is waiting for the regulatory uncertainties to be resolved before developing a fully integrated general spend card.

Central Bank of Kansas City: Innovation in Retail Banking

Chartered in 1950, Central Bank of Kansas City has retained a strong focus on retail banking for over a half-century. With $134 million in assets and eight locations throughout the Kansas City area, Central Bank serves largely low- and moderate-income households, with 25% of residents below the poverty line. For most of its history, Central Bank has focused on Kansas City's urban core. But Kansas City's demographics have changed, becoming more suburban and adding a sizable Latino population. Over the years, Central Bank has seen the number of accounts shrink as the market for retail banking shifted. The bank has responded by adding seven new account profiles and adding new banking products, including a new stored value card. As CFO Tom Lilley notes, "When you're in a non-growth market, it's hard to turn anyone away. We want to be in a position to do business with anyone who comes in."

Central Bank's stored value card strategy was developed mainly as an entry point for the unbanked, with a special focus on the growing Latino market. Lilley points to three reasons that potential customers are unbanked: identification issues, no credit or banking history, or a bad credit or banking history. With the potential for reduced

CENTRAL BANK'S CUSTOMER MIGRATION MODEL



Source: Central Bank of Kansas City

ID requirements, stored value cards are an attractive option for immigrants, many of whom balk at stringent identification requirements, even when they have proper documentation. For those with no banking history or a history of poor account management, stored value cards make it harder to overdraw an account, adding a level of safety for the customer and the financial institution.

Lilley uses a baseball metaphor to describe how unbanked customers enter the financial mainstream by "getting on base" with a stored value card—and then advancing along the bases toward asset development.

Central Bank began developing its stored value card in 2003. As of April, 2005, the bank had issued 100 branded, open-loop cards, 50 of which were still active. Most have been used like gift cards—customers load them up and use them to make purchases at local retail outlets. In the coming months, Central Bank hopes to roll out a branded card with the functionality of a personal spend card, but the bank is still working out the kinks. Though the exact structure has yet to be determined, the new card will also have a remittance feature, allowing immigrant customers to send money back to friends and family in their home countries.

Product Development:
Managing Vendors, Reaching Across Product Silos

While University Bank and Central Bank were both savvy enough to see the possibilities inherent in stored value cards, neither institution anticipated how difficult product development would be. In theory, the technology is capable of supporting the kind of user-friendly, flexible, multi-functional general spending card that University Bank and Central Bank want to offer. The reality, however, is a bit more complicated. Integrating the various systems and networks has proved to be a daunting task. Visa and MasterCard, the principle issuers of SVCs, offer a variety of cards—gift cards, payroll cards, general purpose reloadable cards—but they all have slightly different fees, limitations, operating structures, and, most important, functionality. Different functions are separated into product silos, meaning that a payroll card is different from a gift card, which is distinct from a general purpose card. A payroll card, for example, can only be reloaded through direct deposit, not at a teller window or corner store. And a gift card can't be used for remittance payments. The upshot was that stored value cards worked great as long as they were used in the right product silo.

Most of the responsibility for integrating these functions fell to Pulse EFT Association, the third-party vendor that both banks selected to manage the underlying electronic network and operations. Based in Houston, Texas, Pulse offered a turnkey solution that allowed the banks to plug into an existing electronic funds network, account-management platform, product line, and customer service—while the banks held the underlying assets and managed retail customer relations. When a customer called the toll-free customer-relations number, Pulse routed the number to the financial institution. Pulse's pricing was also much lower than their competitors'. Central Bank spent about $6,000 on set up; monthly expenses run between $250 and $400. (By contrast, Pulse's closest competitor charges $6,000 per month for similar services.) Despite Pulse's price advantage, however, the company lacked some of the operational expertise needed to integrate the various card functions. For instance, when Central Bank tried to have a customer's Missouri state tax refund loaded onto a SVC, it took Pulse a long time to prepare all the correct agreements. Then, once the transaction was ready to go, the company neglected to notify the Federal Reserve Board's ACH area, so the refund was disqualified and sent back to the state.

Both institutions struggled with internal project management. When University Bank started researching SVCs three years ago, Reiling was the champion and chief visionary. As the bank grew, Reiling had to pass off some of his duties to subordinates, who lacked his authority and understanding of the product. When product development ran into obstacles, for example, no one had his executive authority to telephone Pulse's CEO and get to the bottom of things. "You really need a senior person driving a project like this," Reiling says. "They have to understand the technology soup to nuts, but also the what, how, and why you are developing it." Project management requires a deft blend of strategic vision and attention to detail—someone who can see the big picture but also parse the details of a vendor contract. Lilley echoed these sentiments, noting that Central Bank would ideally have had a full-time project manager to oversee product development and marketing. "This is not the only thing we do. It's piled on top of everything else that has to happen on a daily basis."

Pricing and Regulation: Into the Great Unknown

The other main obstacle was the ongoing uncertainty around pricing and regulation of stored value cards. Stored value cards are fundamentally transactional products that generate revenue from fees. The pricing structure of stored value cards varies widely among issuers, both banks and non-banks. University Bank's gift card cost between $6.95, $8.95, or $10.95, depending on the value ($10-$500); Central Bank's card was $5 to load (up to $500) and $2.50 to re-load, but there were over a dozen potential fees for transactions including funds transfer, lost card processing, and bill payment.

The banks themselves faced a host of fees from their vendors—foreign ATM fees for remittance transactions, for instance—and difficult economies of scale. "If you are going to do everything—take the money in, provide backroom customer service, and manage the program—it's going to be tough to make money," Reiling says. Financial institutions may be able to cut costs by working with large employers and having direct deposits on payroll cards, but even the largest institutions are struggling to find a profitable scale.

INDUSTRY STANDARD STORED VALUE CARD PRICING

Function	Price
Card issuance	$1.00 — $9.95
Card re-load	Free — $5.95
Card re-issuance	$1.00 — $9.95
Monthly maintenance	Free — $3.00
IRVU	$0.50 — $1.00
ATM	Free — $2.00
Bill payment	$0.50 — $1.50 per transaction
Dormancy Fee	$5.00 — $15.00
Activity Statement	$10.00 — $25.00

Source: University Bank

Meanwhile, bank regulators are just now discussing how SVCs should be categorized and regulated. The regulatory confusion is due in large part to their complex hybrid form and function. If measured by their functions and capabilities, stored value cards look very much like a bank account. Customers can make ATM withdrawals, conduct PIN-based transactions, and make "deposits" on an account with a known positive balance—functions that are fundamental to bank accounts. Yet the underlying network architecture is very different. In most cases, banks hold funds in a pooled account, either on or off the institution's balance sheet, though some banks link cards to individual accounts and sub-accounts. This architecture drastically reduces the cost of account maintenance, but also frees SVCs from the regulatory burdens associated with demand depository accounts.

Are SVCs demand deposit accounts, or are they something else? Federal regulators are currently wrestling with this question, and their determination will have profound implications for the future of the SVC market. If regulators rule that SVCs are demand deposit accounts, the cards will be subject to FDIC insurance (a boon to customers) and a host of accompanying regulations—Patriot Act identity requirements, Regulation E, CIP, OFAC, ChexSystems, privacy statements, and so on—all of which would upend SVCs' lower cost structure. On the other hand, such a ruling would likely eliminate some non-bank competition among check cashers and pawn shops.

Then there are state regulators. During the 2005 session, Minnesota legislators considered a bill to ban some types of fees on stored value cards—a move that would have essentially legislated SVCs out of existence. Legislation in other states differentiates between store gift cards and other kinds of SVCs. Advocates point out that there are vast differences between bank-issued cards and those issued by non-bank vendors. A more nuanced regulatory approach—banning certain types of fees, or fees on cards issued by certain vendors, or fees on certain types of cards—could eliminate the downsides of some SVCs while retaining the fundamental cost structure that makes SVCs such an appealing option for serving the unbanked.

Operations and Marketing:
Product Roll-Out and Scaling Up

Despite these challenges, University Bank and Central Bank have made steady progress towards the launch of an integrated general spend card. Both institutions began with a non-reloadable gift card, rolling it out to a small number of customers and adding services and functions by developing, testing, and tweaking products among the third party vendors' product silos. And as Central Bank's Tom Lilley points out, there were significant advantages to getting into the market early, despite the regulatory uncertainties and operational challenges. Stored value cards were a relatively new product when Central Bank started developing its product, and getting into the market early has helped the bank stake out a market niche that would have been impossible to claim if the bank had waited. "If we had stayed around and waited for them to decide the regulations, we wouldn't be where we are now," Lilley says. After all, pawn shops and check cashers, the main non-bank competitors, have been moving into this market, and by getting into the market early and developing their products, University Bank and Central Bank are now poised to compete head-to-head with their better-capitalized rivals.

The question is how they will compete. University Bank has scaled back its ambitions. As of this writing, the institution is focusing its short-term efforts on getting a payroll card—a reloadable direct deposit card that employers can use in lieu of payroll checks—up and running. (Payroll cards are one of the strongest offerings in Pulse's product silos.) The bank will continue offering a gift card, but it will be closing down its internal gift card product and selling a third-party's card instead, marking it up and turning a small profit on each card sold. Reiling says the bank will continue working towards a reloadable general spend card, but he is waiting until the regulatory uncertainties are resolved.

Central Bank is moving forward on parallel tracks. The bank is beta testing a payroll card, which is projected to be profitable out of the box. With an eye towards Kansas City's burgeoning Latino community, Central Bank also hopes to integrate remittance functions into its SVC product, but entering that market will also be challenging. A few weeks before the bank was about to launch a major marketing campaign in partnership with a local Spanish-

BUILDING A BETTER BANK CARD:

Reaching the Unbanked with Stored Value Cards

Most Americans give little thought to the narrow brown stripe on the back of credit, debit, ATM, and retail gift cards. But those stripes, along with the underlying electronic networks that track debits and payments, have transformed banking, consumer credit, and retail sales over the past 20 years. Of the $5.5 trillion that Americans spent on personal goods and services in 2001, 32% of those payments were made with credit or debit cards, up from 6% in 1984. For most middle-class consumers, magnetic-stripe technology offers yet more layers of convenience: a reloadable Starbucks card, 24-hour ATM transactions, or a quick fill at the gas pump. But for the estimated 20 million American households without a bank account, magnetic-stripe technology holds the promise of something far more important—a substitute bank account and a potential portal into the financial mainstream. With a relationship established between the issuing financial institution and the customer, the door is open for future savings and loan products.

In recent years, banks and credit unions have begun looking at stored value cards (SVCs) as a promising platform for offering unbanked consumers many of the same products and services associated with a traditional bank account, but at a much lower cost to financial institutions. Like debit cards, stored value cards use magnetic-stripe technology to store financial information and track funds, though their specific functions and flexibility depend on the kind of electronic networks and technology platforms that they use. To date, the principal innovations in the SVC market have emerged around mainstream consumer uses. From the retail gift cards offered by Macy’s and The Gap, to the ubiquitous Starbucks card, the mainstream market for SVCs has exploded in recent years. MasterCard claims to have more than 200 SVC programs with about 100 issuers, and the company's relationships with third parties and processors have seen double-digit growth in the last few years. The Pelorus Group estimates that 15 million pre-paid debit cards were issued in 2003 alone. SVCs are also an increasingly common platform for delivering public benefits:

CHAPTER SUMMARY

PRODUCT/STRATEGY DEFINITION—Stored value cards use magnetic-stripe technology to deliver bank-like services (online purchases, ATM/debit transactions, point-of-sale purchases, bill payment) to customers without bank accounts. SVCs can be a starter product that establishes a bank-like relationship with unbanked customers.

CRITICAL SUCCESS FACTORS —

Æ **Develop or re-sell.** If institutions can achieve enough volume, SVCs are an attractive way to serve a new market; without volume and resources, institutions should consider re-selling third-party cards.

Æ **Pricing.** SVCs have different opportunities to charge fees, so careful thought should be given to pricing for competitiveness, fairness, and profit.

Æ **Migration strategies.** Institutions wishing to make SVCs part of their unbanked product mix need a clear strategy for linking this starter product to mainstream asset-building opportunities.

Æ **Data mining.** Detailed information about how each customer uses the product will help identify customers likely to be a good fit for other products and services. For instance, customers who maintain a positive balance between pay periods may be a better risk for a starter credit product.

Æ **Clear indicators of demand.** The target customers for SVCs are transactors who don't want, or can't have, depository products—immigrants, low-income people, and customers with spotty credit.

INSTITUTIONAL FIT—If there are compelling reasons for an institution to develop its own card, the institution must have the resources and capacity for product development, administration, and cross-marketing of other bank products. If not, institutions should consider re-selling third-party cards that meet an institution's limited needs and capabilities.

language radio station, the bank received a cease-and-desist letter from the US Postal Service, which owned the trademark on "Dinero Seguro,"—part of the moniker that the bank was planning on using for its remittance card. While the bank had to drop the proposed name, it also added a new member to the marketing staff who has deep ties to the Latino community and will shepherd development from here on out.

For institutions considering making a play in the SVC market, perhaps the best advice is to wait. Federal regulators are expected to clear up many of the underlying regulatory question marks within a year's time. "From an entrepreneurial standpoint, there's just too much risk for too little reward," Reiling says. In the interim, both Reiling and Lilley urge institutions intrigued by the SVC market to experiment with re-selling cards offered by third-party vendors. Outsourcing, they note, is an inexpensive, low-risk way for institutions to familiarize themselves with card-based technology, operations, and the market in general. With operational systems in place and the regulatory issues resolved, stored value cards may well realize their full potential as a profitable transitional product for unbanked customers.

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[1] Jacob, Katy; Su, Sabrina; Rhine, Sherrie; and Tescher, Jennifer, "Stored Value Cards: Challenges and Opportunities for Reaching Emerging Markets," (Chicago: Center for Financial Services Innovation, 2005). Ibid.

MEETING CUSTOMERS WHERE THEY ARE:

Using Community Partnerships to Reach the Unbanked

The March/April 2003 issue of Banking Strategies featured a series of articles heralding the return of bank branches to the mainstream banking industry. After a decade of growth fueled mainly through acquisitions and branch consolidation, big banks had once again recognized "the primacy of the branch in customer acquisition and retention" and were now searching for "organic growth." Within a few years, the nation's biggest banks promised to open hundreds of branches in top markets. With an emphasis on swank design and top-notch service, banks sought to sweeten the retail experience for high-end customers with de novo branches, outlets whose aesthetics owed more to Starbucks coffee stores than to traditional banks. "Our job now is to create a far superior service experience and to have more of a retailer's mindset," Liam McGee, president of Bank of America's national consumer bank, told the magazine.

But not all branch expansion is targeting the high-end markets. Many financial institutions are looking carefully at emerging markets as promising opportunities for acquiring new customers.

A fundamental axiom lies at the heart of retail banking, regardless of market segment: You have to meet customers where they are. But how does this advice apply to low- and moderate-income customers? Services that are essential to customers with higher incomes may be irrelevant to lower income customers. The trimmings that middle-class customers find appealing—upscale lobbies and televisions broadcasting CNN Financial News—are often off-putting to low- and moderate-income customers. One of the reasons the fringe financial sector has experienced such strong growth over the past decade is that its financial institutions offer products and services that meet their customers' immediate needs and have delivery channels that are accessible, ubiquitous, and user-friendly. By and large, customers feel welcome in check-cashing outlets. They are treated well by staff-members. And the costs of fringe products, while high, are relatively straightforward.

CHAPTER SUMMARY

PRODUCT/STRATEGY DEFINITION—This strategy uses partnerships with community-based organizations to facilitate entry into new markets or to target customer groups.

CRITICAL SUCCESS FACTORS—

Æ **Seek partners that are trusted by target customers.** Community partners bring two crucial elements to partnerships with financial institutions: an imprimatur of trust among target customers and the infrastructure for serving them. Without the fundamental trust, partnerships won't work

Æ **Partners need to understand and value each partner's role.** Financial institutions and community partners need a clear mutual definition of what customers need and how the partners will together meet those needs. Trust and shared values are key.

Æ **Clear understanding of customer barriers.** Identify the customers' barriers to entry and create appropriate solutions to overcome those barriers. Barriers could include: trust, identification, or lack of financial knowledge.

Æ **Be ready to deliver.** Both partners have to be able to execute when the project launches so customers have a positive experience from the outset.

Æ **Continuous learning.** Strong partnerships have a process in place for continuous learning. What are the best ways to serve this market? How should partners' roles evolve? How should products and services change to accommodate customer feedback? Partners need a regular venue to answer questions like these, backed up with a commitment to refining their approach and product offerings.

INSTITUTIONAL FIT—Community partnerships are good strategies for institutions looking to reach new demographic markets—or institutions whose core neighborhood demographics are changing; i.e., ethnic turnover in immigrant neighborhoods. Community partnerships can also create an institutional presence without the expense of a full-service branch.

In many emerging markets, a lack of knowledge runs two ways: Financial institutions don't know potential customers; potential customers don't know the bank or credit union. Mainstream institutions looking to enter or extend their reach in low- and moderate-income markets thus have to develop delivery channels that mirror the qualities of trust, accessibility, and ubiquity found in the fringe sector. Community partnerships offer a way to build trust with customers, develop institutional knowledge, and gain a foothold in the target market.

This chapter examines how two RFSI institutions have used community partnerships as a strategy for customer acquisition and geographic expansion. Based in Los Angeles, Water & Power Credit Union, partnered with El Rescate, a well-respected Latino social service organization, to acquire a toehold among customers from Los Angeles' burgeoning Latino immigrant communities. (And with Hispanic Americans expected to constitute 22% of the population by 2050, Water & Power's experience is relevant to any financial institution looking to attract Latino customers.) Opportunities Credit Union, based in Burlington, Vermont, has combined a network of community partners with a satellite office, complete with a cutting-edge ATM, to help spur expansion into three rural counties in the southwestern part of the state.

In both cases, the financial institutions sought to bring appropriate products and services together with the right staff, and then place both pieces—products and staff—in community venues that are accessible to the target market. Though they are unique institutions working in very different markets, their respective community partners open the doors to new customers and offer additional services such as financial education and one-on-one financial counseling. Perhaps more important, these partners act as a conduit for customer acquisition, conferring an imprimatur of trust and helping customers understand that the financial institution is interested in their business.

Product and Strategy: Meeting the Customers Where They Are

Though Opportunities and Water & Power are both community credit unions, the communities they serve couldn't be more different. Opportunities' charter covers the entire state of Vermont, the most rural state in America and one of the least ethnically diverse. By contrast, Water & Power serves the residents of Los Angeles, one of the nation's largest, most polyglot cities. Yet both institutions have wrestled with the same fundamental business problem: How do you expand into new markets and acquire new customers when your institution lacks both the capital for branch expansion as well as organic relationships with target customers? Despite their differences, the credit unions have both developed strategies that use community partnerships to meet customers where they are—culturally, geographically, and financially.

As a starting point, financial institutions need to learn more about the target population. Some information about the target group can be obtained from existing data sources, but the more useful information can be gathered from informal conversations, surveys, and focus groups: details about a community, individuals' financial service habits, and product gaps. Community partners can arrange and facilitate meetings, develop and conduct surveys, and help interpret results. The research process also provides the financial institution and its partners a chance to build working relationships and gauge organizational fit—what each brings to the table, what their corporate cultures are like, and how each institution operates.

During the RFSI initiative, both Opportunities and Water & Power invested significant time and resources in this "getting to know you" phase—building relationships with their new partners, learning about the target population,

Getting to Know You: Creating a Solid Partnership From the Outset

Finding and evaluating potential partners is a process. Finding a good institutional fit is key. Here are the basic elements to consider:

- Each institution's goals for the partnership
- What's in it for each institution
- What's expected of each partner
- A mutual definition of what it is that the financial institution is offering to customers and how it fits with what the community partner provides
- How the partners will work together
- Measures of success

finding the right staff, and establishing the mix of products and services for the market expansion.

Opportunities Credit Union: Community Networks and a High-Tech Satellite Office

Founded in 1989 by Burlington Ecumenical Action Ministry (BEAM), Opportunities' mission is to bring capital and financial services to low-income Vermonters. With 14,000 members, Opportunities is one of Vermont's largest credit unions and one of the nation's leading community development financial institutions. Over the years, the credit union had acquired about 1,700 members scattered throughout southwest Vermont, many of whom had joined through a network of partnerships that the credit union had developed with used-car dealers. New members opened share accounts so they could get a car loan, but the credit union lacked the physical presence needed to offer additional services and products. Nevertheless, these existing members could serve as an anchor as the credit union developed a strategy to better serve existing "underbanked" customers while also acquiring new members throughout the state.

The question was how best to accomplish these goals. The credit union couldn't afford to build a branch office with a proper building, tellers, and all the amenities. Likewise, Vermont's mountainous, rural geography made it impossible that any single location could be convenient for everyone. Furthermore, the institution's long-term goal was to move customers towards e-banking through Internet-based transactions, ATMs, and phone banking. E-banking made financial sense—electronic banking is much cheaper for the credit union—but it could also allow customers to have access to a much broader range of products and services without forcing them to drive hours to the closest bank office—a significant hurdle in a rural state known for its harsh winters.

Beyond these geographic, cost, and operational obstacles, Opportunities faced several cultural barriers to serving the rural unbanked. Though many of the credit union's Burlington customers are ethnic minorities, Vermont's rural unbanked are largely low-income whites, a population with different needs, expectations, and barriers than the unbanked in urban areas. Foremost was the issue of trust. In 2003, a focus group conducted as part of the expansion strategy revealed that potential customers were often suspicious of financial institutions, especially credit unions. Some had bad experiences—overdrafts, surprise fees, and deposits that had gone un-credited—while others felt that credit unions were exclusive and rule-bound. Most tellingly, however, respondents noted that they preferred to do business with local people, whom they were more likely to trust.

After experimenting with several different expansion strategies, Opportunities eventually settled on an approach that combined an ATM-based satellite office—which is staffed part-time—with a network of community-based organizations that offer a conduit for customer acquisition, outreach, and education. In partnership with Heritage Family Credit Union, a small but technologically sophisticated institution, Opportunities opened a full-service ATM kiosk along a commercial strip in downtown Rutland, an anchor community in southwest Vermont. Located near the local Wal-Mart and on a bus route, the satellite office is a combination of high-tech and high-touch. The kiosk features a state-of-the-art ATM that prints an image of the deposited check on the back of the receipt, offering customers hard proof of their transaction. The kiosk also has a computer station where members can apply for loans online, transfer money between accounts, make loan payments, check balances, and look at their account transaction history. There is also a telephone that gives customers direct access to Opportunities' phone banking system.

But it is the underlying structure of community partnerships that will ultimately drive the expansion. In 2004, the credit union hired a native of Rutland to serve as the expansion manager. Over the past year, the expansion manager has been working throughout Bennington, Rutland, and Addison Counties, developing relationships with nonprofit community action agencies, government development authorities, used-car dealers, and other community partners. The manager works out of the Rutland kiosk, where she can do non-cash transactions like opening accounts, credit counseling, and taking loan applications. But her most important work will be doing outreach and education among agencies that the credit union has identified as target community partners. If all goes according to plan, community partners will create opportunities for the credit union to connect with agency constituents. Through the agency, the credit union can introduce its services and underscore the institution's commitment to customer service. Opportunities expects that this

THE POWER OF PARTNERSHIP: OVERCOMING BARRIERS TO THE FINANCIAL MAINSTREAM

Barriers to Expansion	Opportunities Credit Union	Water & Power Credit Union
Institutional Trust	**Problem:** Customers lack information about credit unions, don't know that credit unions want to serve their community, or mistrust credit unions and those perceived as "outsiders." **Solution:** Building network of partner community-based organizations to refer customers.	**Problem:** Target customers lack information about financial institutions, don't know the institution wants to serve their community, and/or are skeptical of outside institutions. **Solution:** Partnering with a nonprofit trusted by target customers.
Geography	**Problem:** Customers isolated in largely rural state. **Solution:** Use ATM network and local satellite office to deliver high-tech and high-touch services.	None
Skepticism of Technology	**Problem:** Customers often mistrust validity of ATM transactions. **Solution:** Using high-tech ATM's capable of scanning deposits on receipt.	None
Cultural Hurdles	**Problem:** Many unbanked are more comfortable with cash-based transactions. **Solution:** Financial literacy classes.	**Problem:** Many immigrants lack understanding of U.S. institutions and harbor mistrust of financial institutions from their home countries. **Solution:** Partnering with El Rescate; financial education.
Financial	None	**Problem:** Many unbanked lack funds for $25 minimum deposit. **Solution:** Changed minimum opening balance to $5, gave customers 6 months to build $25 minimum balance.
Financial Literacy	**Problem:** Lack of basic financial knowledge. **Solution:** Providing financial education classes.	**Problem:** Unbanked customers lack basic financial knowledge; other customers need intermediate financial education. **Solution:** Two tiers of financial education offered by El Rescate.
Legal Barriers		**Problem:** Identification requirements make it difficult to open accounts. **Solution:** Primary ID still required as per federal law, but secondary ID requirement loosened to allow letter of introduction from existing credit union members.

"high touch" outreach and relationship-building, combined with its geographically accessible kiosk, ATM, and e-banking services, will build its presence in the region.

Water & Power Credit Union: Partnering Deeply With a Trusted Organization

Water & Power Credit Union was founded in 1936 to serve the needs of employees of the Los Angeles Department of Water and Power, though it has since expanded its charter to become a community credit union that serves anyone who lives, works, goes to school, or worships in much of Los Angeles County. It is now a community credit union with over $460 million in assets and more than 53,000 members. In contrast to Opportunities, Water & Power is a decidedly urban credit union with a diverse membership spread throughout Los Angeles. The institution's organizational culture is fairly oriented to the bottom line, and as Los Angeles' immigrant Latino population grew over the past decade, Water & Power saw an opportunity to further its nonprofit mission but also tap into a huge potential market.

Yet similar to Opportunities, Water & Power had to figure out a way to develop relationships with customers who, while not geographically isolated like rural Vermonters, faced other barriers entering the financial mainstream. For many new immigrants, the most obvious barriers are lack of knowledge about the American financial services industry and lack of appropriate identification. Many immigrants have had bad experiences with corrupt financial institutions in their home countries and were thus skeptical of similar institutions here. In their place, networks of informal financial relationships had developed in many Latino immigrant communities, and many would-be customers trusted those networks despite their higher costs.

Water & Power's strategy was to partner with El Rescate, a large and well-respected Latino nonprofit service organization that was looking to provide solid, low-cost banking services for its clients as part of a broader economic development strategy. In December 2004, Water & Power opened a non-cash satellite office in El Rescate's lobby, where agency clients can open accounts, apply for loans, and receive counseling.

But the true value of the partnership goes beyond the convenience of conducting transactions in El Rescate's lobby. From Water & Power's perspective, El Rescate is an essential conduit into LA's immigrant community, providing access to customers, essential knowledge about their constituents' needs, complementary services such as financial education and social services, as well as a critical imprimatur of trust. From El Rescate's perspective, Water & Power offers products and services especially tailored to the needs of the immigrant community—low-balance depository accounts, small business loans, credit builder loans, car loans, etc. The credit union has adapted some of its products, for instance, lowering the opening balance requirement from $25 to $5 and giving members six months to deposit the full amount.

In the short term, the partnership has allowed Water & Power to develop relationships with a customer segment that is notoriously hard to penetrate. The partnership with El Rescate opened the door to hometown associations, the informal mutual-aid societies that constitute the social and financial infrastructure of many Latino immigrant communities. Instead of having a relationship with customers mediated through El Rescate, Water & Power is tapping into a community network that is even broader and deeper. In the past months, a handful of hometown associations have opened depository accounts as organizations. If the trend continues, Water & Power hopes individual members will also open accounts. So far, the partnership is off to a strong start. The credit union acquired over 200 new members in the first ten months.

Operations:
Hiring Locally and Developing the Right Delivery Mechanisms

Both projects are still in their early stages—Opportunities' ATM office went live in June 2005 and Water & Power opened its satellite office in December 2004—but their experiences thus far underscore four key operational lessons. The first two are building the right community partners and staffing from the local community. Water & Power's member services representative is the daughter of the president of one of LA's largest hometown associations. She grew up in the neighborhood and attended association meetings throughout her childhood. After attending college, she came back to LA wanting to give something back to the community. Her personal relationships allow customers' trust to adhere to the credit union, and her insights into the community's culture and financial needs have proved invaluable.

Likewise, Opportunities' decision to hire a Rutland resident as its expansion manager allowed customers to bridge the trust gap they have with other mainstream financial institutions. Many rural Vermonters have lived in the same community for generations, and they put a premium on local relationships. Business is conducted on the basis of personal relationships. When talking to customers or conducting outreach, the outreach manager makes it a point to find someone she and her counterpart know in common. It's not that people are provincial; it's just that they prefer a local touch—what the credit union calls "character banking."

The other key lesson the institutions had in common was the importance of finding the right product and delivery mechanisms for their banking services. Both institutions, for instance, discarded other strategies before finally settling on their current ones. Before opening the new kiosk in partnership with Heritage, Opportunities had partnered with Falcon, a cooperative ATM network operated by community banks and credit unions throughout Vermont. Though the cooperative network aligned with Opportunities' mission, the ATMs were often inaccessible to the low-income residents in southwest Vermont. Some of the machines were in office buildings that closed after business hours. Others were in commercial strips that were inaccessible by public transportation. Water & Power initially tried to use low-cost loans as an enticement to get new customers to buy computers and engage in Internet banking—an approach that, in asking customers to go from being unbanked to being banked online, was simply too much of a leap.

The last lesson is the importance of knowing customers through partnerships and institutional outreach. Using satellite offices as the physical anchors, each institution has developed an outreach strategy that leverages existing social networks to draw customers into the institution while also using appropriate technologies to deliver financial services. Sometimes these technologies are high-tech—like Opportunities' ATM kiosk—but more often they are high-touch: financial education classes, credit counseling, one-on-one banking.

Partnership and Marketing: Leveraging Existing Social Networks

While both credit unions have staked their success on the ability to leverage existing social networks through community-based organizations, the goals, structure, and relationships endemic to these partnerships were shaped by the unique characteristics of each community. Opportunities' corporate culture and their mix of products and services were well-suited for the target market, but they needed an entry into the market and accessible ways to do business. Over the next few months, Opportunities will establish formal partnerships with community-based groups with which it already has relationships: community action agencies, government development authorities, United Way, and used-car dealers—an important entry point for the unbanked in rural areas without public transportation.

The idea is to develop a network of partnerships where everyone brings something to the table. The nonprofit agency partners will provide a range of services to low-income clients who will help them stabilize their families socially, emotionally, and economically. The credit union enhances the partners' services to existing clients—teaching people how to manage their money, creating appropriate products/services for those who are ready to access checking, savings, and loan products. On the flip side, the credit union will have reasons to refer their members to the social service agencies at times—for example, when someone defaults on a loan because he or she lost a job. The "work-out" might involve both the partner agency and the credit union working together to help the borrower work their way through the financial crisis.

The partnership between Water & Power and El Rescate is older and somewhat more fleshed out. Founded in 1981 by members of the Santana Chirino Amaya Refugee Committee (SCARC) and the Southern California Ecumenical Council, El Rescate was the first agency in the United States to offer free legal advice and social services to refugees fleeing the war in El Salvador. Though initially formed to serve Salvadoran immigrants in Los Angeles, El Rescate has since expanded to serve Latino immigrants throughout Southern California. For Water & Power, El Rescate's broad client base is one of the agency's most attractive qualities. With a client population spread throughout Southern California, El Rescate thus gives Water & Power a conduit for reaching a diverse immigrant community.

The two organizations began planning their partnership several years ago, but the process moved slowly at first. El Rescate's board was appropriately skeptical of Water & Power and took its time with due diligence. Eventually, the partners decided to move forward with a three-way partnership between El Rescate, Water & Power, and the remittance company. The roll-out was delayed for several months while El Rescate and Water & Power waited for the remittance company to develop its product line and operations. As the process dragged on, the first two partners eventually decided to move forward with a two-way partnership, though they are still hopeful that the remittance company will eventually move into the office that El Rescate has set aside in its lobby.

The decision to co-locate has presented even more opportunities to leverage the other partner's resources. El Rescate, for instance, has the infrastructure to help Latino immigrants learn about American society, obtain employment, learn English, and obtain citizenship. Meanwhile, El Rescate's knowledge of the Latino community has allowed Water & Power to develop products and services that address the needs of an exceedingly diverse community. Early on, El Rescate helped organize focus groups, which shed light on the surprisingly diverse needs of the immigrant community. First generation immigrants were much less likely to have bank accounts. They tended to be younger and were often undocumented. As a result, they shied away from financial institutions because of the identification requirements to get an account, and also because they tended to be poorer than those who had been in the country longer. On El Rescate's advice, Water & Power was able to tweak its product offerings, lowering the initial balance for depository accounts and adjusting the identification requirements.

But the real benefit to Water & Power has been the trust that has adhered through its partnership with El Rescate. Many immigrants were initially suspicious of an "outside" financial institution, but as the relationship developed, customers came to trust Water & Power. As the credit union deepened it's relationships with the community, it eventually gained access to a growing number of hometown associations. "Hometown associations are the best partners I've come across," Rodriguez says. "Partnering with existing social networks is the way to go, but it's still hard."

Eventually, the idea is to build an independent, unmediated trust relationship with customers. Think of this process as the arc of a relationship one might have with any service provider—a babysitter, accountant, mechanic. A friend recommends the mechanic. You go there, let the guy change your oil. Next time, you have him replace the timing belt. But it takes a while before you will go to him with an unknown problem that could potentially cost you a lot of money. Trust develops in a series of steps, with community partners offering ascending levels of trust at each level.

Down the road, the partners could develop joint economic development strategies for the immigrants who are more established financially—small business loans for entrepreneurs, college-savings products, home mortgages. As the agency's client population has become established in the United States, their needs have changed. Many have opened businesses and bank accounts. Families that have been here since the 1980s are established and want to move ahead. They are thinking about buying homes, saving for their children's education, planning for retirement—either in the United States or back in their home country. For this cohort, economic development and financial services are what they need, and the partnership with Water & Power was a way for El Rescate to provide some of those services immediately, while also building their internal expertise and capacity to do economic development.

Performance and Outcomes: Product Innovation and Institutional Benefits

Both strategies have been underway for less than a year, so neither has had enough time to germinate any conclusive figures on financial performance or return on investment. However, the early numbers are promising. Water & Power's partnership with El Rescate has yielded 446 new members, 206 of whom have come since the satellite office opened in December. In total, the partnership has generated $66,000 in share accounts. Opportunities, meanwhile, had garnered 141 new members by the end of May, though some of those members have come through car dealerships and not necessarily through the satellite office. But the credit union is well on its way toward its goal of acquiring 400 new members this year.

Water & Power has also seen two important institutional benefits. First, the partnership has allowed the credit union to reach customers outside the initial target market. For instance, El Rescate has a contract with LA United School District to teach adult education classes, which will allow the credit union to reach scores of new customers per year. Recognizing the potential marketing opportunity, at least one large bank has approached El Rescate about forming an education partnership, but the organization demurred, offering Water & Power the opportunity instead.

The second institutional benefit has been Water & Power's growing knowledge of the Latino community's financial needs. Through focus groups, the credit union learned that many of the families who immigrated to the U.S. in the 1980s were already in the financial mainstream. Most had checking and savings accounts. Many owned homes and businesses. What they needed was not basic financial services, but rather more sophisticated financial tools—small business loans, home mortgages, retirement and education planning. "Had we not done focus groups, we would not have known about both groups, the unbanked and wealthier long-term residents," Rodriguez says. Recognizing this heterogeneity, Water & Power is now planning a series of investment and financial planning courses targeted at this cohort.

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[1] See Banking Strategies, March/April 2003, Volume LXXIX Number II (http://www.bai.org/bankingstrategies/2003-mar-apr/)

SHAPING BETTER CUSTOMERS:

Building Loyalty Through Second-Chance Checking Accounts

Nearly 80% of American financial institutions use ChexSystems, a national database of consumer checking history, to determine whether an applicant should be allowed to open an account. If an applicant's name appears in the database, it means he or she has had an account closed sometime within the past five years—and that alone is reason enough for banks to deny an application. But, as some critics have pointed out, the database provides scant detail regarding the reason an individual's account may have been closed, and is therefore a poor tool for assessing risk. Was it overt check fraud? Identity theft? A modest overdraft that piled up? For the estimated seven million people whose names appear in ChexSystems, the reasons matter little. It simply means they are shut out of the financial mainstream.

Giving the Unbanked a Second Chance[1]

ChexSystems emerged as the industry standard for the simple reason that it does a good job in helping financial institutions to minimize risk. But there's also a significant downside. Because it offers few details on an individual customer's past, the system thus does a poor job of assessing the quality of risk an individual customer might pose. The way banks use data is even more capricious. A 2000 bank survey by the Greenlining Institute found wide disparities in the criteria that banks used when reporting customers to ChexSystems. Some banks reported customers to ChexSystems for overdrafts of $100 or more, though others set the limit at $35. One bank gave customers 30 days to rectify an overdraft while another waited 60 days.

In recent years, financial institutions have begun rethinking how they use ChexSystems. In 1998, a coalition of financial institutions, credit unions, and social service agencies came together to form "Get Checking," a national financial education program designed specifically to help consumers establish a primary banking relationship and gain access to mainstream financial services. Today, 164 financial institutions with 4,700 branches now participate. Five years ago, Bank of America announced it was relaxing its guidelines.

CHAPTER SUMMARY

PRODUCT/STRATEGY DEFINITION — Second-chance checking accounts are bank accounts for customers who are listed in ChexSystems, a national database of consumer checking history. By using financial education and monitoring, financial institutions are able to lower their exposure to risk. (Some second-chance accounts restrict account activity, as well as transactions.) The expectation is that new customers will transition into mainstream banking.

CRITICAL SUCCESS FACTORS —

Æ **Institutional commitment.** Board and staff must be committed to understanding why a potential customer is unbanked. And, they must build an infrastructure that offers the guidance and trust necessary to help customers develop banking skills and habits. Customers need to value and maintain an ongoing relationship with a depositary institution.

Æ **Right products.** Institutions need low-fee, low-risk starter products that bring customers into the institution—but in a controlled way.

Æ **Monitoring.** Second-chance account customers often overdraft, almost always accidentally. Institutions need systems to catch overdrafts early, and protocols for contacting customers to work out payment options and to help them avoid future overdrafts.

Æ **Outreach strategy.** Customer development strategies need to educate and build trust among customers, as well as ensure a steady flow of new customers. Partnerships with community organizations are an ideal vehicle to build this market.

INSTITUTIONAL FIT—Second-chance accounts are a good fit for institutions in communities—or those entering new communities—where there are substantial numbers of formerly banked individuals. Second-chance accounts are one way to serve the market.

Washington Mutual and Wells Fargo followed suit, announcing plans for a pilot project in Oakland that would give an account to anyone within ChexSystems as long as he or she had not committed outright fraud.

But, what goes into a successful second-chance checking account product? How can banks minimize risk while accepting more applicants? What kind of support, monitoring, and financial education do second-chance customers need?

This chapter explores the second-chance account program developed by Legacy Bank, a $108 million African American-owned state-chartered commercial bank in Milwaukee, Wisconsin. Originally developed as a product for customers who had never had a bank account, Legacy Bank's Financial Liberty First Accounts morphed into a second-chance account after realizing that many of the ostensibly unbanked customers were, in fact, "under-banked"—they once had accounts but closed them for any number of reasons: overdrafts, high fees, dissatisfaction with customer service, etc. Working through a network of partnerships with community-based welfare-to-work agencies and the childcare industry, the Financial Liberty First Accounts combine financial education, outreach, and scrupulous monitoring to make sure customers stay solvent. This "tech-meets-touch" approach has proved remarkably effective in attracting and retaining low-income customers. Since launching the Financial Liberty First Accounts in 2002, Legacy Bank has opened 1,800 accounts through the third quarter of 2005, over 1,000 of which are still on the books.

Product and Strategy: Minimizing Risk and Maximizing Opportunity in Second-chance Checking Accounts

Given ChexSystems' inability to differentiate among customer histories, might there be better ways of assessing and mitigating customer risk? These are the questions Margaret Henningsen, one of Legacy's three co-founders, set out to answer in designing the Financial Liberty First Accounts. In 2002, Legacy Bank was selected as one of 15 institutions nationwide, and the only bank, to receive a grant from the Treasury Department's First Accounts program, which sought to develop commercially viable products for the unbanked. At the time, Legacy's loan portfolio included small-business loans to childcare providers, home-based businesses that had proliferated in the wake of Wisconsin's ground-breaking experiment in welfare-to-work. In the late 1990's, Wisconsin's work-first requirements created a surge in demand for childcare services as thousands of single mothers entered the workforce. Childcare centers were also one of the few viable businesses that former welfare recipients could own.

An estimated 75% of former welfare recipients were also unbanked. Henningsen saw an opportunity to bring former welfare recipients into the financial mainstream while also developing a new customer base for her bank. "A lot of the women who were starting these childcare programs were unbanked," Henningsen says. Some had never had bank accounts, but many more had blemished credit histories. "As we looked at their history, we found that few of them had committed fraud," Henningsen says. "In many cases, they had bounced a check or two and landed themselves in ChexSystems."

In 2002, Legacy Bank rolled out three Financial Liberty First Accounts products. There is a checking account with a debit card, which carries some restrictions (a good history with the bank, no overdrafts, and direct deposit); a savings account with an ATM card; and, a money market checking account with no debit card and a minimum balance of $100 to open and maintain the account. The first two types require a $10 minimum to open an account, but there is no minimum balance thereafter. The accounts have no monthly service charges, unlimited checking, and unlimited ATM transactions. But what distinguishes the

Financial Liberty First Checking Account Features

- Non-interest-bearing
- Direct Deposit Available
- Minimum to open is $10
- No monthly service charges
- Unlimited check writing
- No minimum balance requirement
- Unlimited ATM transactions
- ATM card available
- Debit card available
- Statement sent monthly

Financial Liberty First Accounts from similar products is the supporting structure Legacy has established to make the accounts sustainable.

On one hand, there is the high-touch component. As an institution, Legacy is committed to serving low-income customers, and its corporate culture emphasizes the importance of personal banking relationships. The bank has established long-term partnerships with local social service agencies and childcare centers, allowing the bank to attract and educate low-income consumers, including a high percentage of formerly unbanked customers. On the other hand is the technology component. Legacy set up the Financial Liberty First Accounts as a separate bank branch, a simple step that allows the bank to monitor account activity and intervene quickly when problems crop up.

Operations: Using Technology to Minimize Risk

Henningsen recognized from the outset that Financial Liberty First Accounts holders would need a little more hand-holding than regular customers. Setting up the Financial Liberty First Accounts as a separate branch allows the bank to monitor overdrafts, analyze patterns, and intervene early. Using the bank's data processing system, Henningsen can get daily reports on all of the accounts. In most cases, overdrafts occur when customers misjudge the timing of deposits and withdrawals. A customer will make a deposit and immediately write a check before the deposit has cleared. Henningsen established an account monitoring team, which includes personal bankers, customer service representatives, members of the finance department, and Henningsen herself. If the team notices a pattern—for instance, a customer bouncing a check on the same day in successive months—Henningsen will pull the customer's account application and contact him or her. This combination of tech-meets-touch has gone a long way toward reducing overdrafts. "If they're bouncing a check on the same day every month, it usually means they are writing a check on the day a direct deposit happens but before the deposit clears."

Though there has been some fraud, the bank's internal system has managed to minimize it. Under the bank's deposit rules, customers have access to only $100 until the check clears, so if a customer deposits a blank envelope in another bank's ATM (Legacy's machines do not accept deposits as a fraud-protection measure), the bank's exposure is minimized. In other cases, a customer will deposit a check from a third party, which will then bounce. In these cases, customers get a second-chance. Either way, Legacy is quick to close fraudulent accounts. "If someone tries something like that, they are gone," Henningsen says.

By and large, however, the combination of close monitoring and individual outreach with troubled account holders has proved remarkably effective in minimizing fraud and overdrafts. In fact, a recent analysis of Financial Liberty First Accounts versus the bank's regular checking accounts revealed that the Liberty First Accounts were actually outperforming the others. In the three years that the program has been up and running, balances have increased—a sign that the lessons of Legacy's financial education courses are finally sinking in.

The bank also has a stringent early intervention policy. If a customer overdrafts more than three times, he or she is required to take a remedial financial education class. This combination of intervention and education has sharply reduced overdrafts. In class, customers learn about the penalties of criminal fraud, a lesson that usually scares them straight. (By contrast, Henningsen notes that 75% of customers who overdrafted had not been to class.) Slowly but surely, the bank has seen the number of overdrafts decrease.

Partnerships: Local Networks Support "High Touch" Education and Counseling

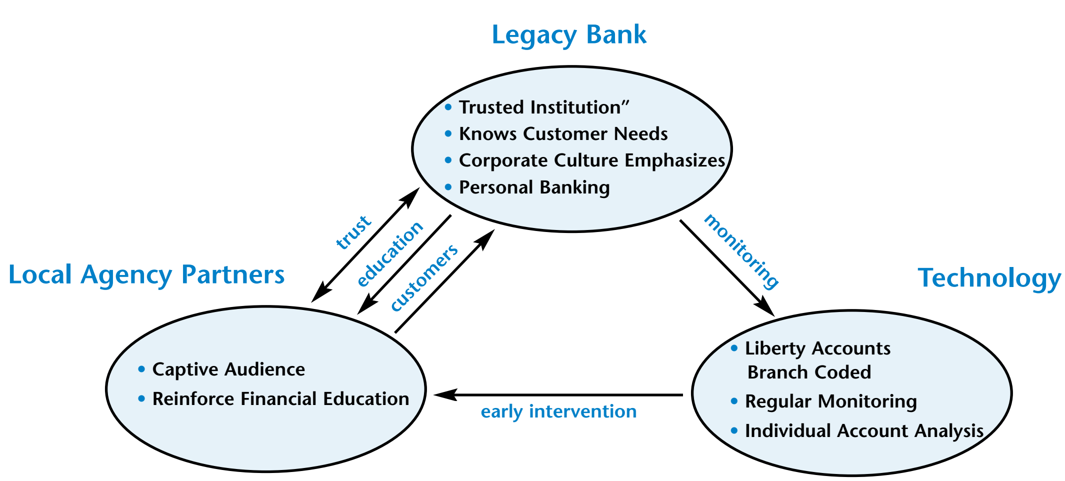
As important as Legacy's high-tech tools are, the bank's second-chance account strategy depends on the bank's ability to provide high-quality, on-going financial education and counseling to higher-risk customers. The unbanked typically face a number of intertwined obstacles to entering the financial mainstream. Foremost, most low-income families live paycheck-to-paycheck, leaving little room for financial error. Many have had negative experiences with banks and credit unions, accruing overdraft fees and minimum balance charges. Many are suspicious of banks, having been burned before. Conversely, most potential customers lack fundamental financial literacy: how checking and savings accounts work, how to budget, how to avoid overdrafts, how to save. Finally, because their financial lives are so rocky, the unbanked tend to move around more than customers with stable finances, making them difficult to reach through conventional marketing and outreach.

Legacy has addressed the need for high-touch customer relationships by cultivating partnerships with community-based organizations whose clients constitute Legacy's target market: low-income people, former welfare recipients, and the unbanked. Most of the bank's partners are agencies that have contracts with the state's welfare-to-work program. The other partners are childcare providers, an industry that overlaps with welfare-to-work. Legacy's network includes 20-25 different community organizations. As of this writing, however, the bank was working closely with 11, teaching weekly, monthly, or quarterly financial education courses.

Community partnerships have helped Legacy overcome three important barriers: financial illiteracy, market penetration, and a lack of trust among customers. Welfare-to-work agencies and childcare centers are one-stop shops for customer acquisition, allowing banks to save on marketing and outreach while providing the core services—education and counseling—that make better customers. Obliged to attend work-readiness classes by the state's welfare-to-work laws, customers are essentially a captive audience. Welfare-to-work agencies, in particular, also have the infrastructure in place to do counseling, education, and outreach. By inserting itself into the welfare-to-work curriculum, Legacy is able to educate its customers and build trust. For sheer numbers, childcare agencies were a particularly fruitful entry point because both caretakers and parents were former welfare recipients. With over 100 children in some of the centers, childcare agencies represented a huge, untapped niche market.

Partner agencies' staff members are eager to reinforce the lessons that Legacy Bank teaches. As Henningsen notes, "Partnering is like having extra employees. They serve as my eyes and ears." Henningsen teaches the financial literacy classes herself, but agency staff members play a central role as well—reinforcing the lessons, talking up the importance of banking, and lending a stamp of approval to Legacy's name. From the agencies' side, the partnerships with Legacy have helped to improve client outcomes. "Developing relationships with social service agencies was the easy part," Henningsen said. "They view this as additional service to their clients." As clients' finances improve their lives become more stable, and they are more likely to stay employed.

LEGACY BANK'S HIGH-TOUCH/HIGH-TECH SECOND-CHANCE ACCOUNT MODEL



Tech Meets Touch

- Partners provide access
- Bank builds high-touch relationships through education, counseling, personal banking
- Technology offers monitoring and analysis

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- Lower Risk
- Customer Loyalty
- Asset Development
- Migration and Profit

In some cases, having a bank account actually helped clients land jobs. One of Legacy's partners is a welfare-to-work agency called Maximus, which focuses on getting former welfare recipients ready for the workplace. But the agency found that otherwise qualified and work-ready clients still struggled to find jobs. The reason was tragically simple: The prospective employers paid through direct deposit, and without a bank account the agency's clients would never be hired. Through the agency's partnership with Legacy, clients could now tell prospective employers that the bank will open an account for them if they are hired. Since making this change, the number of clients who get turned down for jobs began to decrease.

Direct deposit also helped keep clients in class—a crucial benefit for welfare-to-work agencies whose pay-for-performance contracts with the state have stringent attendance goals. At the beginning and end of every month, Henningsen noticed something strange about her class. "Instead of talking to 30 people, I'd be talking to two," she says. It was payday, and students were down at the agency offices picking up their checks, or at home waiting for them to arrive in the mail. Since welfare-to-work programs sanction clients who don't attend classes, direct deposit put more money in clients' pockets by helping them stay in class. "There was a direct correlation between direct deposit and attendance," Henningsen says. Helping clients stay in class was an important feature for welfare-to-work partners and an added incentive to partner with Legacy.

Though Legacy's community partnerships have paid off handsomely in the long-run, they required only a modest investment of time and effort to get up and running. Because of Henningsen's existing relationships with agency staff members, the concept of partnership was never a difficult sell. Developing curriculum, setting up classes, scheduling—all the nitty-gritty operational details—was more labor intensive. Henningsen estimates it took her a month working full-time to get the program off the ground and another month working half-time. She held group and individual meetings with representatives from 35 childcare providers. Legacy's tellers and personal bankers were also involved in start-up marketing. In all, one month of up-front investment has yielded a steady stream of customers, and provided the infrastructure needed to service them.

Marketing, Outreach, and Customer Relations: Building Personal Banking Relationships

Thanks to its strong community partnerships, Legacy has had to do little formal marketing. Most of the marketing has come through community partners, and Henningsen estimates that nearly a third of the new accounts now come through word-of-mouth referrals as second-generation customers and graduates of the welfare-to-work agencies tell their friends and families. As word got out among social service agencies, other institutions began inquiring about forming partnerships as well.

Much of Legacy's success is rooted in its long-standing institutional mission to serve the unbanked, a commitment that resonates with potential customers. Beyond the Financial Liberty First Accounts, over a third of Legacy's overall staff time goes into reaching the unbanked through classes, new accounts, monitoring, and account administration. "We educate all of our customers," Henningsen says. "We believe that if we provide old-fashioned banking services one customer at a time, at some point, they will become profitable."

This high-touch banking relationship has also led to a better product. First Accounts initially required an opening minimum balance of $100, but the bank soon realized that few customers could afford the short-term restriction in their cash flow, even though they could get the money out in a couple of days. When Legacy dropped the minimum balance requirement to $10 the accounts took off. In response to surging customer demand, the bank hired a third personal banker. "These customers are high-maintenance," Henningsen says. "Because they trust us, they come in to ask about other financial issues—credit cards, home loans, or major purchases like cars."

Performance & Outcomes: Investing for the Long-Term

Henningsen readily concedes that Financial Liberty First Accounts are not profitable as a stand-alone product—but adds that checking accounts rarely are, regardless of the market segment. On the other hand, First Accounts have proved less expensive in the short-term. According to an internal analysis, monthly losses for the First Accounts program were 15% lower than losses for other accounts.

Legacy's second-chance banking accounts have helped cement the bank's reputation as an industry leader in serving the unbanked. Henningsen's calendar is crowded with speaking engagements, and she was recently approached by the British consulate in Chicago for her advice on a similar national program currently under development in the United Kingdom. The bank has won awards and grants from private foundations and government agencies, including a pair of Treasury Department Bank Enterprise awards totaling over $1.1 million.

This acclaim has translated to the bottom line. Over the years, the bank's mission has attracted over $5 million in deposits from foundations, corporations, religious orders, and other financial institutions. The national recognition that Legacy received for being one of the most successful First Accounts programs in the country also brought a long-sought deposit of $8 million from the City of Milwaukee. Legacy was also the recipient, in partnership with the Wisconsin Housing Economic Development Authority (WHEDA), of $100 million in New Market Tax Credits, which will allow the bank to leverage $300 million on behalf of its broader mission.

In any case, Legacy regards its second-chance customers as long-term investments. Over the past two years, customers have started moving to higher-margin products like loans, savings accounts, and certificates of deposit. But, the main benefit has been in increased customer loyalty, which will pay off in the future as more customers migrate. "People who are given a second-chance are some of our best customers," Henningsen says. "They are incredibly loyal."

[1] Parts of this chapter are adapted from Carlson, Neil, "Capital Ideas," Ford Foundation Report, Fall 2004. http://www.fordfound.org/publications/ff_report/view_ff_report_detail.cfm?report_index=526

[2] Barr, Michael, "Access to Financial Services in the 21st Century: Five Opportunities for the Bush Administration and the 107th Congress," (Washington, DC: Brookings Institution, 2001).

CONCLUSION:

Creating Products and Services for Underbanked Markets

Of the many lessons learned through the Retail Financial Services Initiative, arguably the most important was the insight that low- and moderate-income consumers are not simply "regular" customers with less money. In reality, they constitute different market segments—rural residents, recent Latino immigrants, urban African Americans, for instance—each with distinctive cultural beliefs, behavior patterns, consumer preferences, and barriers to participation in the financial mainstream. Yet these markets all have one thing in common. Mainstream financial institutions have yet to figure out the right mix of products and services to meet their financial needs.

But RFSI also revealed that with the right insights, a good product mix, and a thoughtful strategy, these markets have real mainstream potential. Wherever a financial institution's goals and interests lie—whether it wishes to pilot a starter product in a target market, or whether it is a community development institution that views unbanked/underbanked consumers as a core customer segment—there are scales and strategies amenable to a myriad institutions and markets. Here are four broad lessons to consider in developing a strategy:

1. Meet customers where they are. The RFSI institutions learned not to assume what their new target markets would be like. All the institutions invested significant time and resources in learning about their potential customers so that strategies and products met customers' needs. Focus groups and customer surveys were helpful, but relationships with community partners were the most effective way of reaching new target markets. An institution's ultimate success depends on how effectively it gets to know its customers, and how it reshapes products and strategies according to what works and what doesn't. As a representative from one institution put it, customer service for this population is a "high-touch" proposition. The most effective institutions recognized the value of knowing their customers, building trust, and responding to customer needs. Implications of meeting customers where they are include:

Æ **Emulate the transactional aspects of fringe products while limiting their predatory aspects.** Several RFSI institutions developed products and strategies that emulated transactional products, but they also lowered the cost to the consumer and used them as an entry point to the financial mainstream. Bethex Federal Credit Union's seminal partnership with RiteCheck broke new ground by allowing credit union members to conduct business at check-cashing outlets. North Side's Payday Alternative Loan gave instant cash but stretched out the term and built borrowers' credit scores. Alternatives' Refund Express Loan was essentially a line of credit that offered customers immediate access to their federal tax refunds, but at a fraction of the cost of competing commercial products. And SSA Baltimore's partnership with Our Money Place and A&B Check Cashing used check cashing to introduce customers to the benefits of credit union membership.

Æ **Need for cash.** For families living paycheck-to-paycheck, access to fast cash is an essential part of any financial product. RFSI institutions built this need into products in a variety of ways. Through their partnerships with check-cashing companies, Bethex and SSA Baltimore gave credit union members access to transactional cash products. The stored-value cards offered by University Bank and Central Bank offered instant "plastic cash," combining the liquidity of a check casher with the safety and convenience of a credit card. North Side's Payday Alternative Loan and Alternatives' Refund Express Loan provided instant cash. Meanwhile, Legacy Bank restructured its minimum-balance requirements and encouraged direct deposit precisely because doing so removed another barrier for customers: having cash tied up in minimum balance requirements and the float on deposits.

- **Accessibility.** Another key lesson RFSI institutions learned from the fringe industry was the importance of accessibility and location. Check-cashing partnerships created instant ubiquity and convenience. Opportunities Credit Union opened a full-service ATM kiosk in a high-traffic mall because it needed to reach rural customers but couldn't afford to open a full-service branch. SSA Baltimore has attracted new members in large part because it is in a busy strip mall, accessible by public transportation and by foot. Water & Power's satellite office at El Rescate receives foot traffic from agency clients, and its physical presence in the agency lobby reinforces the message that the credit union is a trustworthy partner.

- **Opportunities to build and repair credit.** Though many who are unbanked and underbanked have poor credit, or no credit at all, RFSI institutions demonstrated that, given the opportunity—along with support and monitoring—customers can build and repair credit. North Side encourages customers to use its Payday Alternative Loan to pay off commercial payday lenders and break the cycle of chronic debt. Alternatives' Refund Express Loan is essentially a line of credit secured with the customer's federal tax refund, which can then be rolled over into an unsecured line of credit. Likewise, Legacy Bank's second-chance accounts offer customers an opportunity to sidestep their ChexSystems listing, while the bank's scrupulous monitoring and strong partnerships significantly minimize risk. Finally, Bethex, Opportunities, and SSA Baltimore all offer "credit builder" loans, which serve as many customers' first step towards better credit.

- **Monitoring and early intervention.** Though RFSI institutions work with customers many other institutions would consider high-risk, most would argue that customers who get into trouble with overdrafts or late loan payments rarely do so with fraudulent intent. Rather, they don't understand how financial products work and what the consequences of misusing them are. Or they simply have bad habits, and changing them takes time. Monitoring and early intervention are thus essential tools for both reducing risk and helping customers develop good financial habits. It's not enough to give customers access to products; institutions have to help the customers use them prudently.

2. Transactional products evolve into transitional vehicles. If RFSI's first lesson is the need to meet customers where they are, the corollary lesson is the importance of using transactional products as transitional vehicles. Even the harshest critics of the fringe financial industry concede that fringe products are often the only way customers can meet their immediate financial needs. Payday loans, check cashers, and rapid tax-refund loans provide instant liquidity. Check-cashing outlets offer convenience and a variety of services—bill payment, remittances, and cash. But all these products are expensive and they do little to help customers develop good financial habits, build credit, or accumulate assets. The challenge is to use these transactional products as the first step towards the financial mainstream. It's not enough to have the right products in place; banks and credit unions also need to help unbanked and underbanked consumers develop the skills and financial literacy needed to use the products to their advantage. At a minimum, this transition requires the following elements:

- **Entry points into the mainstream.** Customers need a toehold once they are ready to move beyond transactional products. Starter products include second-chance accounts similar to the product offered by Legacy. Check-cashing partnerships—like those developed by SSA Baltimore and Bethex—are another good example since they steer customers from the fringe provider to the mainstream institution.

- **Non-predatory small loans.** Payday loans and rapid-refund loans do provide instant liquidity, but they are expensive for the consumer, don't build credit history, and, in the case of payday loans, often subject customers to chronic debt. Yet Alternatives and North Side showed that it is possible to develop credit products that meet customers' needs but are cost-competitive and potentially profitable.

- **Customer development.** Every single RFSI institution offered some form of financial education and counseling to its unbanked/underbanked customers. In the best cases, education went beyond basic financial literacy and focused instead on developing whole customers—creating personal financial plans; monitoring accounts and intervening when problems cropped up; and cross selling products.

3. Leverage partnerships to help aggregate customers and distribute products. Community-based organizations often have deep relationships with, and an abiding knowledge of, target markets. Not surprisingly, every RFSI institution cultivated community partners as a way to aggregate customers and distribute financial service products. Some partnerships were central to an institution's success in this market, but not all partnerships yielded the expected results. The most successful partners have credibility with the target market and the capacity to deliver on their commitments. It is also important that the partners understand or are willing to learn about each other's institutional culture and objectives for the partnership. Clarity about what each partner brings to the table, and what each hopes to take away, is critical to success in the long run. Specific benefits of partnership include:

- **Building customer trust.** One of the greatest hurdles facing financial institutions is the lack of trust many unbanked/underbanked consumers have in mainstream financial institutions. As several sites illustrated, however, community partners can be a bridge to target customers. Water & Power and Opportunities both used community partners as a way to build trust with target customers. Legacy Bank, meanwhile, has managed to build community partnerships into its business model. Its network of childcare centers and workforce development agencies is the backbone of its second-chance accounts strategy.

- **Product delivery.** Community partners were essential conduits for delivering services at several RFSI sites. Arguably the most comprehensive model is Our Money Place, the three-way partnership among SSA Baltimore, A&B Check Cashing, and the Our Money Place community partners. In contrast, Alternatives uses community partners more narrowly, as sites for its one-day tax-prep "Super Sites" and as conduits for marketing. Somewhere in the middle are Opportunities and Water & Power, institutions whose partners were instrumental in product delivery but whose operations weren't as tightly bound together as those in Our Money Place.

- **Customer education.** Of all the roles community partners can play, customer education is arguably the most central. In the case of SSA Baltimore, the Our Money Place community partners shoulder responsibility for tax-prep services, financial education, credit counseling, and other services. In the cases of Legacy and Opportunities, community partners aggregate customers but the financial institutions themselves provide the training.

- **Product development and evolution.** In many cases, community partners were instrumental in helping RFSI institutions develop and refine their products. Water & Power reshaped its identification requirements, product pricing, and minimum balance requirements to help El Rescate clients overcome initial hurdles to credit union membership. Likewise, Legacy Bank recalibrated its minimum-balance requirements at the suggestion of its partners. By contrast, while SSA Baltimore found its partners' market analysis useful in defining the general mix of products and services customers wanted at Our Money Place, the analysis didn't define which credit union products or services customers might use. Still, the credit union has acquired its own first-hand knowledge of the customer base, and it is now reshaping its product mix.

4. Make an institutional investment in the market.
Though many of the RFSI institutions are mission-driven, they are also businesses with similar bottom-line concerns as other banks and credit unions. The most successful institutions had a clear vision about why they were launching their product or strategy—and this vision was fully supported by the board and staff of the institutions. Three of the most successful institutions—Alternatives Federal Credit Union, North Side Community Federal Credit Union, and Legacy Bank—have longstanding commitments to serving unbanked/underbanked consumers, and their RFSI products (alternative loans, free tax preparation, and second-chance accounts) were integrated with their overall business models. As institutions build trust and improve their products to meet the needs of the target market, momentum and scale can be achieved. Here are the key considerations:

- **Define the value proposition.** For SSA Baltimore, the Our Money Place partnership offered an inexpensive way to open a branch in an underserved community, expand its citywide pool of potential membership, and deepen its business relationships with the community. For Central Bank, stored value cards were a potential draw for Kansas City's burgeoning Latino community. Legacy Bank's business model revolved around providing personal banking services for low- and moderate-income consumers, and second chance accounts were a core component. Sources of value elsewhere included:

  - **Brand development.** Several institutions—Alternatives, University Bank, North Side, Legacy Bank—used RFSI products and services to strengthen and extend their brand identity as market leaders in serving unbanked and underbanked markets.

  - **Goodwill capital.** Two of the more bottom-line oriented institutions—SSA Baltimore and Water & Power—used RFSI to generate the goodwill capital needed to attract new customer groups or reach more mainstream customers through expansion.

  - **Grants to support mission.** Nearly every RFSI institution received grants to support their work. An untapped source of capital might also be foundation program-related investments (mission-related investments in for-profit or nonprofit entities with below-market returns).

  - **Deposits related to socially responsible business practices.** Several RFSI institutions, notably Legacy Bank and North Side, received significant deposits from foundations, governments, and corporations.

  - **Lower costs for customer acquisition and product development**. For nearly every RFSI institution, community partnerships were a crucial tool for lowering the costs of customer acquisition and product development. With deep relationships with the target market, community partners aggregated customers and conferred an imprimatur of trust. Community partners also lowered product development and operational costs by providing a source of inexpensive market research.

- **Commit resources to product development and operations.** As is the case in any market, success requires a sufficient investment of resources. Water & Power, for instance, experimented with several different models for serving Latino customers before finally entering into a partnership with El Rescate. It recognized the potential value of the market and stuck with the idea until it found a model that worked. By contrast, two RFSI institutions were never fully convinced that retail services for unbanked/underbanked consumers constituted a viable market, and they did not commit the financial resources or personnel to fully develop their products and services.

  - **Internal champion needs authority and time.** The most successful institutions had an entrepreneurial champion with both the authority and time to devote to product development. As the two sites that developed stored value cards illustrate, it is possible to overcome steep obstacles if internal resources are allocated wisely and the internal champion has the authority to make critical decisions.

  - **Differentiate carefully between product development and operations.** Several institutions drew contrasts between the skills required to bring a product to launch and those required to manage a product once it is in the market. Successful product launches require both skilled project managers for the product design phase and outstanding operations people for the implementation phase.

  - **Link product design to deep knowledge of target market.** Those institutions that were less connected to the low- and moderate-income markets at the outset of this process all wished that they had more time and resources to invest in getting to know their target communities better while they were designing their products and strategies. As one banker noted, the best products come from the community, not from "some idea floating around in a banker's head."

- **Get the timeframe right.** Succeeding in the unbanked/underbanked retail market requires a long-term strategic focus. Perhaps not surprisingly, the two institutions with the most successful products—Legacy Bank's second-chance accounts and Alternatives' tax-preparation service—have business models that revolve around serving the unbanked/underbanked market. Both institutions have committed to tracking customers' progress and using that data to develop and refine products and services that will help customers move towards financial stability—and the institution towards profitability. Both acknowledge that developing customers is a long-term value proposition, yet they are convinced that building customer loyalty through service and product development will pay off in the long run.

Æ **Manage risk.** Many financial institutions perceive unbanked/underbanked customers as riskier than "regular" financial-services customers, and while that may be partly true, RFSI institutions have demonstrated that it's possible to manage that risk. Part of that is accurately assessing risk, in particular finding alternate ways to measure the credit risk of potential customers in ChexSystems. The other part is finding creative ways to lower risk or share it. Financial education and credit counseling were widespread, and effective, tools. From a bottom-line perspective, North Side and SSA Baltimore both created loan-loss pools with charitable funds to support their alternative loan products. Legacy and Alternatives, meanwhile, both monitor their accounts closely and intervene early when problems crop up.

NCIF is proud of what the Retail Financial Services Initiative and its 12 partner institutions have accomplished over the past three years. As expected, most of the products and strategies piloted by RFSI institutions are still in their start-up phase, yet together they have demonstrated that a viable market for financial services exists among unbanked/underbanked consumers. Technological advances have lowered transaction costs, making these markets potentially more attractive. And as all the RFSI sites showed, partnerships with community-based organizations offer platforms for driving down costs even further—by using partners for product development; co-location; and/or customer acquisition and development.

The promise is there, but challenges remain. How can financial institutions create business models that fit their operational strengths? How can community partners help them achieve appropriate, profitable economies of scale? How can the providers of fringe services adapt their business models, through partnerships with mainstream institutions or by direct competition, so they offer better services? The 12 RFSI institutions have blazed trails for serving unbanked/underbanked markets. It is up to them, and others, to expand those trails into legitimate, scalable pathways into the financial mainstream.