

BANKING DEVELOPMENT DISTRICTS

Support for financial institutions in under-served communities

Overview

To help un-banked Californians to open bank accounts and enter the financial mainstream, California policy makers should consider creating Banking Development Districts. New York State created these special districts to provide incentives to encourage banks to locate in communities that lack conventional financial institutions and offer enhanced products and services

Far too many Californians are “un-banked”

Too many people live outside the financial mainstream. National estimates show that 10 percent of households, including nearly one-quarter of the minority population, are “un-banked,” meaning they lack a basic checking or savings account. In California, 28 percent of adults don’t have a checking or savings account, according to the US Census. Recent market research indicates that Fresno and Los Angeles have the second and third highest percentages of un-banked residents in the country. In San Francisco, the Brookings Institution found that one in five adults—and half the city’s Blacks and Latinos—do not have bank accounts. The un-banked are most likely to be people of color, less educated, and have lower incomes.

There are profound costs to being “unbanked”

The un-banked poor may pay more to conduct their financial lives. Check cashing outlets can charge between 2-3 percent of the face value of a check. So, an individual who makes \$30,000 a year can pay \$800 a year just to get their salary and pay their bills. But there are more profound costs to being un-banked, costs that aren’t readily apparent.

Families without accounts don’t have a safe place to keep their money. They may walk around with wads of cash in their pockets, or keep it at home in a coffee can. Robberies are more prevalent around check cashing outlets. A burglary, or a fire, could cost them their life’s savings in a matter of moments.

A bank account is also the first step to financial security for many families. A bank account helps people take the first step onto this path. Without an account, it’s much more difficult to get well-priced car loans, credit cards, or mortgages—the exact financial tools needed to climb up the economic ladder. Many families stay stuck on a different path—going to the pawn shops, payday lenders, rent-to-own stores—where the interest rates can reach several hundred percent.



How did Banking Development Districts (BDDs) help in New York?

Many bankers, while seeing the long-term potential of locating in under-served communities, don't think they can attract enough retail deposits in the short-term to become viable.

To help banks overcome this barrier, New York State created Banking Development Districts. Communities that lack financial institutions and meet certain criteria are declared Banking Development Districts by the State Banking Commission. The state then agrees to make deposits of state funds into banks that agree to expand services and locate in designated under-served communities. New York City has agreed to offer other public incentives to decrease operating costs. These incentives include: access to below-market public funds; real property tax breaks; and other local tax incentives.

For communities undergoing or planning revitalization, there are few more potent symbols of hope than the opening of a new bank branch. It can be a key element to making revitalization a reality: facilitating access to the credit, investments and services that individuals, businesses and community institutions need to grow and prosper. A new branch signals confidence in the future, regardless of what may have taken place in the past.

Banks in underserved communities have many important impacts and help to:

- Provide greater access to banking services: encourage those who may not have banking relationships to become part of the financial mainstream;
- Stimulate local economies by enhancing access to capital for local businesses;
- Promote long-term economic development;
- Foster job creation; and
- Promote community stabilization and revitalization.

Since 1999, a total of twenty-six BDDs have been designated in New York. In the case of South Jamaica, Queens, one of the nation's most diverse neighborhoods and an area long characterized by high foreclosure rates and scarcity of banks, Carver Federal Savings Bank successfully applied for BDD designation in April 2004. Carver is bringing increased accessibility to banking products and services, including low-cost deposit accounts and loans to local residents and institutional customers. The Bank is also offering affordable mortgage lending programs, savings accounts for kids, checking accounts designed for low-to-moderate income people, in addition to working with local church and community organizations to facilitate financial literacy seminars.

Can Banking Development Districts work in California?

California policymakers should reach out to the banking community and community advocates to determine if and how Banking Development Districts can work in California. The state and cities can develop their own packages of incentives to bring banks back to under-served communities, and residents into the financial mainstream.

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