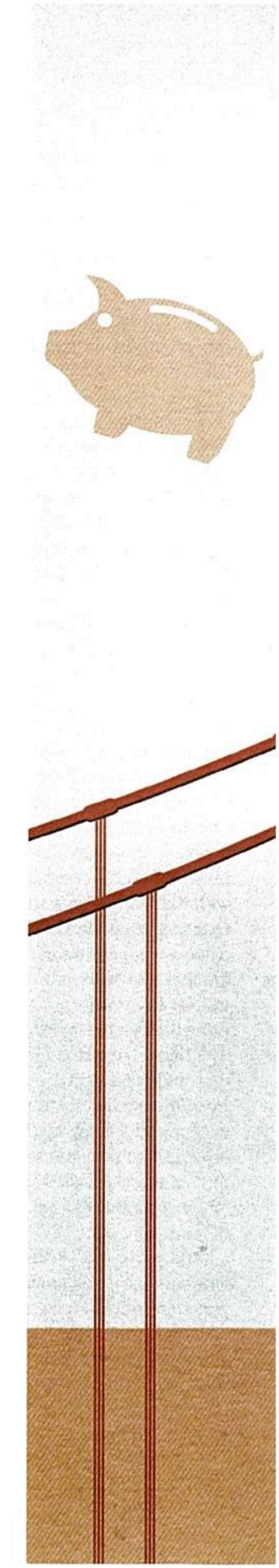
WHEN A CITY TAKES THE LEAD IN FINANCIAL INCLUSION

By Victoria Finkle

San Francisco has an Office of Financial Empowerment that oversees all sorts of programs designed to help residents handle their money better and recruits banks and credit unions to participate. As other cities adopt a similar approach, more financial institutions have an opportunity to get involved.



San Francisco's innovative spirit is not confined to the tech giants of Silicon Valley – city officials also have shown a lot of creativity in their efforts to help low-income families improve their financial health.

The city has an Office of Financial Empowerment that has launched a handful of programs over the past decade to help struggling residents open bank accounts, save for college and avoid predatory lenders – all with the help of local banks and credit unions. José Cisneros, the city's treasurer, created the office in 2006, after work to develop a new tax credit for working families shed light on problems faced by the unbanked and underbanked.

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Some of San Francisco's financial programs are being copied by other cities across the country, providing opportunities for more financial institutions to get involved. Here are several of these efforts.

Children's Savings Accounts

The city has been a leader in the rapidly growing movement to provide universal college savings accounts to children, based on research that those with early savings are more likely to enroll in higher education later on.

Nearly all the programs run by the Office of Financial Empowerment had been targeting adults at first – "because adults do pretty much handle money matters for families," said Cisneros. "But we wanted to do something to get financial education and empowerment started as early as possible."

The savings program that the city launched in 2012 was the first of its kind to open an account for every kindergartener in the public school system. Each year, incoming students receive $50 in seed money, and those who qualify for free or reduced-price lunch get another $50.

Families and students are encouraged to put their own money in the accounts and there are several opportunities throughout the year to earn extra funds. For example, there is a $100 match for the first $100 saved in the account, and a $100 bonus for putting away savings regularly over a six-month period.

The savings can be used only for post-secondary educational purposes, like tuition or vocational training. If a student elects not to pursue further study after high school, the account dissolves when he or she turns 25 – any family savings are kept and any matching funds are returned to the city.

To date, San Francisco has opened more than 21,000 accounts, and families have set aside $1.7 million of their own savings towards college.

"What we find is that many of the kids may have the first bank account in the household," said Bob Annibale, global director of community development and inclusive finance at Citigroup, which hosts the program and designed the platform used for all the accounts.

Citigroup got involved as a way to give back to the community, he said. But tackling the technical problems of developing the program also was valuable to the bank. "Challenges like this – like bringing a whole city on board – I think this has commercial value to us," Annibale said. "We want to build up platforms that are really scalable and affordable."

Now other cities, including St. Louis and Lansing, Mich., have their own children's savings account programs with local financial institutions. Boston and Durham, N.C., are conducting pilots.

Tishaura Jones, the city treasurer in St. Louis, said San Francisco provided inspiration – and advice – when she wanted to develop a similar program in her city. The St. Louis program, called College Kids, launched last fall with 1st Financial Federal Credit Union.

"San Francisco is exactly where I got the idea," Jones said. "It's better to try to start young and give hope from a young age – and hopefully some of these lessons of saving for something big transfer to other family goals."

Summer Jobs Connect

In a separate initiative, the Office of Financial Empowerment has partnered with San Francisco's summer jobs program for teens to offer financial education and set up direct deposit for paychecks.

The program, called Summer Jobs Connect, is part of a collaboration with seven other cities across the country to bring financial education into municipal summer employment programs. It is organized by the Cities for Financial Empowerment Fund and the Citi Foundation.

When the program launched this past summer, more than 1,100 teens signed up for bank accounts and used direct deposit, collectively saving over $360,000.

The city is hoping to study and track whether and how students use the accounts over the school year, and a spokesman reports very few account closings so far.

"We're trying to get more people connected to a safe financial account and one that they use in the most productive and successful way possible," said Cisneros.

Still, he added that challenges and opportunities remain – particularly for banks.

"It's not always easy, because there's no uniform practice out there for opening up accounts for individuals who are under the age of 18 – it's very much a gray area," he said. "Some banks and credit unions have found a way to do it. Many, if not most, have not."

There can be problems for young workers, both in terms of finding someone to co-sign for the account and then protecting their savings from struggling family members who might have access to the funds, Cisneros added.

Bank On

Cisneros is perhaps best known for building the country's first Bank On program in 2006, paving the way for a model that's swelled to more than 100 cities nationwide. The program connects city officials, community organizations and financial institutions to provide low-income families access to bank accounts so that they don't have to rely on check cashers and payday lenders.

Financial institutions in San Francisco have opened an estimated 75,000 accounts since the launch, a positive development for the city and local banks alike. The accounts are designed to help those with poor credit histories, and they generally have low or no minimum balance requirements and low or no monthly fees. Participating financial institutions also accept alternative forms of identification, such as Mexican consular identification cards, to open the accounts.

Reports from the Office of Financial Empowerment indicate that banks and credit unions experience comparable or even superior performance from the Bank On accounts relative to other accounts offered, in terms of metrics like balances maintained and charge-offs. A city spokesman estimates that 80% of accounts stay open for at least three years.

"What we feel this program can bring to all of our participating financial institutions is the opportunity to grow their customer base," Cisneros said. "Pretty much every one of the banks said they saw it as that – they were excited to work with the city to help people who needed help, but of course they were just as excited about the opportunity to grow their market share."

Julius Robinson, head of corporate social responsibility for the Americas at MUFG Union Bank, said that the Bank On program also has served as a launch point for further innovation at his bank.

MUFG Union has designed its own "access account" inspired by the Bank On one. The new account offers additional features to appeal to low-income consumers.

"We look at the access account as a gateway account and a path to start to build, through the process of financial education, much stronger clients and much more meaningful clients," Robinson said.

The bank continues to offer the Bank On accounts as well, and participation in the program counts towards its Community Reinvestment Act requirements.

Meanwhile, Bank On San Francisco has spurred other partnerships within the city. In 2011, city officials developed CurrenC, a program that coordinates with more than 120 employers to offer workers direct deposit or payroll cards. The intent is to encourage the use of traditional bank accounts over check cashers.

The city provides assistance to businesses to help them move away from using paper checks and helps to match workers without bank accounts to financial institutions through Bank On.

Small-Dollar Loans

San Francisco also has been experimenting since 2009 with ways that poor families can avoid debt traps associated with repeat payday loans. The city operates its own small-dollar loans program, Payday Plus, with a handful of area credit unions. Consumers can borrow up to $500 with a maximum APR of 18% and repay it over six to 12 months. They must be able to show proof of direct deposit and are required to complete a financial education course to participate.

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A 2013 evaluation by Stanford University found that struggling borrowers benefited from the program. The borrowers said the loans helped them build their credit history and boosted their confidence around managing money.

But the pilot has remained small, with just several hundred loans made so far.

"It's not a money-maker," said Kymberli Roberts, consumer lending manager at San Francisco Federal Credit Union, one of the participating financial institutions.

Still, the credit union is not posting losses from the program either, she added. "Breaking even is just fine."

Roberts said that delinquency rates are "quite low with minimal charge-offs." She estimates that about 10% of borrowers return for other kinds of loan products as a result of raising their credit score through the program.

Ideally, city officials and executives at area credit unions and banks would like to see borrowers build up their credit and move on to other banking products.

"When people come back for additional payday loans, once they've paid off the original, we're really trying to work on eventually getting them a credit card, whether that be a secured or unsecured card, to try to get them moving onward and forward," said Roberts.

Cisneros described the program as a work in progress. "If someone's struggling financially, it's going to be a little more of an important question, will this person be able to pay?" he said. "And I think that's what we found was a stumbling block for any financial institution" in trying to scale the program up.

He said that the city is looking at numerous ways to improve this kind of lending – reviewing new approaches to credit analysis for the poor, exploring international lending models and collaborating with the Consumer Financial Protection Bureau.

While there are no other cities leading a similar effort right now, there's considerable focus on the small-dollar loans space these days. Several banks have developed their own payday lending alternatives. KeyBank, for example, offers an unsecured revolving line of credit, called the KeyBasic Credit Line, with a maximum APR of 25% and an annual fee of $25. Sean Andrews, a senior vice president and consumer credit group product manager at KeyBank, estimates that losses occur on about 10-12% of the loans on an annualized basis.

At the same time, San Francisco is pursuing more intensive financial coaching for struggling consumers through its Smart Money network, a collaborative effort involving the city, local nonprofits and private funding sources focused on financial education. Sessions are offered at more than a dozen sites around the city.

"The best solution to a predatory payday loan is to never need to borrow in that kind of way, but rather to have a healthier financial footing," Cisneros said. □