

Banking On Opportunity:

Helping families convert their wages into economic mobility by improving their ability to effectively use financial services

Matt Fellowes, *Pew Charitable Trusts*

Summary

Nearly all American households lose hundreds, sometimes thousands, of dollars in potential income, savings, or wealth every year because of their difficulty using financial services. This is evidenced by problems as small as difficulties choosing between basic checking accounts to those as large as properly diversifying investments and wisely choosing between different assets. Collectively, these difficulties broadly undermine the ability of families to convert their hard work into economic mobility and wealth. In response, a growing number of cities, and now the state of California under the leadership of Governor Schwarzenegger, have launched “Bank On” campaigns to help improve the ability of households to use financial services. These low-cost, public-private partnerships have already saved tens of millions of dollars in income for participating families and set thousands of households on the path to economic prosperity. These programs can be easily replicated by other states and there are numerous organizations standing ready to help Governor’s quickly implement these programs.

The Problem

Americans may be the best, most highly trained and efficient workforces in the world, but most struggle in some manner when it comes to converting their paychecks into wealth. Among the evidence, we know that about 10 million households rely on expensive non-banks to cash their paychecks and other checks, adding up to over \$1.5 billion in fees every year just to cash checks. About 70 percent of all household checking account deposits are held in non-interest bearing accounts instead of transaction accounts that provide a higher-yielding return, forfeiting as much as \$5 billion in wealth every year. About 40 percent of the 84 million households with a credit card may be relying on a more expensive card than they qualify for. And, about 16 million workers in 2004 that were eligible to participate in an employer-supported 401(k) plan choose to not participate. The examples continue.

As a result of these difficulties, American’s have greater difficulty converting their paychecks into economic mobility. They lose billions of dollars in potential wealth every year. And, they face greater economic insecurity than they would otherwise.

A Solution

In response to these difficulties, a growing number of cities, and now the state of California under the leadership of Governor Schwarzenegger, have launched “Bank On” campaigns to help improve the ability of households to use financial services. As a first step, these programs are tackling the most basic of problems facing American households and workers – connecting the “unbanked” —or the 10 million households without bank accounts—to appropriate accounts that help lower their financial transaction costs and put them on the path to building savings and assets.

The programs are public-private partnerships administered out of the executive offices of Mayors and Governors. Partners include community organizations, financial institutions, elected

officials, and, increasingly, affiliates of national organizations. The community groups provide expertise about unbanked communities and use their institutions to help their clients overcome trusts and misperceptions barriers that prevent them from opening-up bank accounts. The financial institutions publicly agree to market appropriate, low-cost basic bank account products to these households and in some areas have also contributed money to help advertise the program. The elected officials serve an intermediary role between community organizations and financial institutions, leading the process and helping to raise the visibility of the programs. And, numerous national institutions are standing by to help any of these institutions adopt these programs, providing information about the market opportunity and practical case studies.

San Francisco launched the first Bank On program in 2006 and they have already opened-up low-cost, appropriate bank accounts for as many as 20 percent of their unbanked population. Now, over 30 city's have followed San Francisco's lead. This past January, California became the first state in the country to announce that it will launch a Bank On program, which will formally be launched in November 2008.

All of these programs have started by addressing the most basic of problems facing households as they struggle to convert their wages into prosperity. But, the intermediary role that the Mayors and Governors are playing in the financial services market, helping qualified households connect to appropriate financial services, and helping responsible financial institutions connect to to qualified households, is a role in the market to tackle additional problems, too. Already, some of the first-mover cities are moving on to tackle additional problems, including low savings, alternative credit products, and financial counseling.

Follow-up Resources

Numerous organizations are ready to help states launch Bank On Programs. These include:

The Pew Charitable Trusts

Initiative: Safe Banking Opportunities Project

Director: Matt Fellowes

E-mail: mfellowes@pewtrusts.org

The William J. Clinton Foundation

Initiative: Financial Mainstream Initiative

Director: Trooper Sanders

E-mail: tsanders@clintonfoundation.org

There are also a number of organizations that are working on city-specific initiatives or on related initiatives, including 3) The National League of Cities, 4) The United States Conference of Mayors, 5) AARP, 6) FDIC, and the 7) U.S. Department of Treasury.

Reading Materials

1. The Pew Charitable Trusts Safe Banking Opportunities Project

<http://www.pewtrusts.org/safebanking>

2. The William J. Clinton Foundation Financial Mainstream Initiative

<http://www.clintonfoundation.org/what-we-do/clinton-economic-opportunity-initiative/our-approach/financial-mainstream-program>

3. "Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth Building Potential."

http://www.brookings.edu/reports/2008/01_banking_fellowes.aspx