Memorandum

DATE August 7, 2009

TO Members of the Finance, Audit & Accountability Committee:
Jerry Allen (Chair), Ann Margolin (Vice Chair), Della Jasso, Vonciel Jones Hill, Angela
Hunt, David Neumann and Ron Natinsky

SUBJECT “Bank on Dallas”

On Tuesday, August 11, 2009, the Finance, Audit & Accountability Committee will be
briefed on the “Bank of Dallas” initiative.

A copy of the briefing is attached. Staff will be available at the meeting to answer
questions.

Should you have any questions or concerns, please let me know.

A.C. Gonzalez
Assistant City Manager

Attachment

C: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Thomas P. Perkins, City Attorney
Craig Kinton, City Auditor
Judge C. Victor Lander, Judiciary
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest Turner, Assistant City Manager
David Cook, Chief Financial Officer
Jeanne Chipperfield, Director, Budget & Management Services
Karl Zavitkovsky Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Helena Stevens-Thompson, Assistant to the City Manager

Dallas, Together, we do it better
“Bank on Dallas”

Finance, Audit & Accountability Committee
August 11, 2009
Purpose

• To brief the Finance Committee on the “Bank on Dallas” program, which aims to create more than 25,000 new, active bank accounts in under-banked Dallas neighborhoods

• To outline potential next steps and seek Finance Committee guidance regarding this initiative
Background

• Jim Reid of Momentum Texas was commissioned by the City to research the program
• “Bank on Dallas” based on model developed in San Francisco, California
  – Replicated in Houston, San Antonio and 5 other California cities
• Goal is to connect residents to mainstream financial services and alleviate the millions of dollars being spent nationwide on alternative financial services and predatory lenders
• Nationally, 20% are unbanked; up to 50% in inner city/minority communities
• Dallas has 366 banks, and 293 alternative financial services facilities (check cashers, payday lenders and pawnshops)
  – Percentage of alternate service lenders high in lower income neighborhoods
  – Fees from check cashers and payday lenders total $34 M; value of checks cashed/payday loans: $418 M
• Estimated that regular check casher fees can total $800/user annually (see Appendix)
How Could this Program Work in Dallas?

• Requires partnership between City of Dallas, interested banks, credit unions, financial literacy providers, social service providers and bank regulators

• Planning committee formed to focus on three components:
  – Criteria/Product development
  – Marketing
  – Financial literacy
How Could this Program Work in Dallas? (cont)

• Specific objectives of design phase:
  – Develop a low-cost product to meet the needs of unbanked consumers
  – Expand marketing in targeted, low-income neighborhoods
  – Partner with nonprofits in Dallas to identify persons ready to enter the financial mainstream and provide them financial literacy training

• Program design phase estimated to be approximately 6 months
What Are Potential Benefits?

• Reduction of high check cashing fees
• Lowered risk of theft or loss due to fire or natural disaster
• Lower cost of credit
• Improved financial literacy
• Overcome obstacles to using financial institutions:
  – Culture and language barriers
  – Don’t write enough checks
  – Mistrust of banks/credit unions (hidden fees)
  – Previous accounts closed
Goals

• Bank on Dallas would:
  – Increase the supply of starter bank accounts
  – Raise awareness of potential benefits from the use of the mainstream financial system
  – Provide “second chance” accounts
  – Encourage financial education, savings and asset building

• **Create 25,000 new accounts** over a **two year period**
Results from Other Programs

- **San Francisco:**
  - Organized by the Office of City Treasurer, the Federal Reserve San Francisco and EARN (non-profit)
  - Has received $1.4 million in grants since program inception (2006)
  - 10 banks, 5 credit unions participating (numerous branch locations)
  - Accounts have **no monthly fees, no initial deposit required, checkless, free money orders, no remittance fees**
  - In 2 years, **31,000 accounts** opened; **24,000 still active. Average balance: $980**
  - Financial literacy training provided to almost 700 people
  - Program has a website and hotline for marketing
Results from Other Programs (cont)

• **Houston**
  - Organized by City Treasurer, Mayor’s Office, Alliance for Economic Inclusion (FDIC sponsored), and Federal Reserve Bank of Dallas Houston branch
  - Launched January 2009
  - Budget of $130,000 in marketing dollars and pro bono design services from marketing firm; Clear Channel billboards donated
  - City provides part time staff and website
  - 22 financial institutions as members
  - Low or no cost checking with no minimum balance requirements, offer debit or ATM card, offer at least one additional account feature
  - Nine non-profits provide financial literacy training in English and Spanish
  - **Goal** to create **10,000 new accounts in first year; reached in first quarter**
Results from Other Programs (cont)

- **Other California Cities**
  - Targeted cities: Los Angeles, San Jose, Oakland and Fresno
  - Started in 2008
  - Program coordinated by staff from Governor’s office and FDIC (2 total); managed locally
  - Funded from private sources; no state money involved
  - 30 financial institutions in the five cities
  - Low or no cost monthly fees, no minimum balance, waiver of first set of overdraft fees.
  - Goal to reach 100,000 in two years
  - Program includes financial literacy training
Lessons Learned from Other Programs

• **Early involvement of financial institutions and regulators** is a must
  - Banks benefit from starter accounts that generate new customers and favorable CRA consideration

• **Proactive support by City is important** (staffing, city leadership)

• Coalition with a **formal partnership structure provides needed organization**

• **Strong involvement with community** organizations, financial institutions, churches, schools, employers is essential

• **Resources and experts must be mobilized at the front end** (i.e., FDIC, Federal Reserve)

• Need **pro bono marketing support**
Necessary Next Steps to Implement a “Bank on Dallas” Program

• Obtain support of major banking institutions and credit unions
• Employ a designated individual to facilitate the program design process (est. cost: $5.5k) including the formation of a design team steering committee
• Convene a planning and design team steering committee
  – Designate Chair and Vice Chair
  – Create/recruit subcommittees: products and services, marketing, financial literacy
• Gain commitment from a marketing/advertising firm to provide pro bono marketing assistance
• Anticipate an independent fundraising requirement of $100,000 to underwrite marketing, program materials and program launch
• Dedicate a City staff person (.5-1 FTE) to manage program
Appendix
City Profile: Dallas

Basic Financial Services Infrastructure (estimates)

<table>
<thead>
<tr>
<th>Service</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of non-bank check cashers</td>
<td>107</td>
</tr>
<tr>
<td>Total value of checks cashed</td>
<td>$246,742,765</td>
</tr>
<tr>
<td>Total fees on checks cashed</td>
<td>$6,168,569</td>
</tr>
<tr>
<td>Number of pawnshops</td>
<td>88</td>
</tr>
<tr>
<td>Total value of pawn loans</td>
<td>$21,157,915</td>
</tr>
<tr>
<td>Total fees on pawn loans</td>
<td></td>
</tr>
<tr>
<td>Number of banks and credit unions</td>
<td>stub</td>
</tr>
</tbody>
</table>

Major banks, by number of branches:
- Bank of America
- Chase
- Wells Fargo
- Washington Mutual
- First National

Proportion of Neighborhoods Containing a Financial Services Branch, by Neighborhood Income

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Low Income</th>
<th>Lower Middle Income</th>
<th>Higher Middle Income</th>
<th>High Income</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion</td>
<td>34%</td>
<td>43%</td>
<td>45%</td>
<td>41%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Distribution of Financial Services Branches, by Neighborhood Income

- Banks and Credit Unions: 24.3%
- Alternative Financial Service Providers: 11.9%

brokings analysis of data from the Texas Office of the Consumer Credit Commissioner, the Federal Deposit Insurance Corporation, InfulSA, and the U.S. Census Bureau. The estimates in these analyses were generated using the best available data, but should be treated as estimates nonetheless. *Because we lack reliable data on pawn loan fees, they are not included here. Alternative financial service providers include any non-bank institutions that offer check cashing, payday loans, and/or pawn loans. Neighborhood income represented by census tract. Income groups were determined using national neighborhood income quartiles where median neighborhood income is greater than $50 (low income is $37,146 or less; lower middle income is between $37,148 and $48,225; higher middle income is between $48,227 and $64,199; and high income is $64,199 or greater). Census tracts that are not fully contained within city boundaries are included in this analysis only if more than half of tract population falls inside the city. Financial services data are current as of 2008, neighborhood income data are from 1999 and have been adjusted to 2008 dollars using the Bureau of Labor Statistics’ CPI Research Series.