

AMENDED IN ASSEMBLY MARCH 21, 2011

CALIFORNIA LEGISLATURE—2011–12 REGULAR SESSION

ASSEMBLY BILL

No. 38

Introduced by Assembly Member Bradford

December 6, 2010

An act to add Division 18 (commencing with Section 40000) to the Financial Code, relating to banking development districts.

LEGISLATIVE COUNSEL'S DIGEST

AB 38, as amended, Bradford. Banking development districts.

Existing law provides for various programs and activities in the development of economic opportunities for businesses in the state. The California Small Business Financial Development Corporation Law establishes small business financial development corporations and provides for their regulation by the Business, Transportation and Housing Agency. Existing law, the Banking Law, provides for the regulation of banks by the Department of Financial Institutions.

This bill would create a Banking Development District Program, within the department, that would encourage the establishment of banking branches in designated geographic locations where there is an underserved community, as defined. The bill would require the department to provide information on the Banking Development District Program to the Treasurer and would authorize the Treasurer to utilize the Banking Development District Program when promoting the Treasurer's Time Deposit Program. The bill would require the department to adopt rules and regulations for the establishment and maintenance of banking development districts and to evaluate and approve applications for designation of banking development districts. The bill would require the department to develop and provide certain

incentives to banks, as defined, located in a banking development district. The bill would also require the department to establish and post on its Internet Web site a performance review process for the program, as specified.

Vote: majority. Appropriation: no. Fiscal committee: yes.
 State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. The Legislature finds and declares all of the
 2 following:
 3 (a) Too many Californians are disconnected from the financial
 4 mainstream. National estimates show that 10 percent of households,
 5 including nearly one-quarter of the minority population, are
 6 “unbanked,” meaning they lack a basic checking or savings
 7 account. In California, 12 percent of adults do not have a checking
 8 or savings account, according to the United States Census. Recent
 9 market research indicates that Fresno and Los Angeles have the
 10 second and third highest percentages of unbanked residents in the
 11 country. In San Francisco, the Brookings Institution found that
 12 one in five adults, and half the city’s African Americans and
 13 Latinos, do not have bank accounts. The unbanked are most likely
 14 to be people who are less educated and have lower incomes.
 15 (b) The unbanked poor pay more to conduct their financial lives.
 16 Utilizing check cashing outlets and money order services to pay
 17 bills and expenses can have costly side effects as the result of fees
 18 and service charges.
 19 (c) Families without accounts often do not have a safe place to
 20 keep their money. They may walk around with large amounts of
 21 cash in their pockets, or keep it at home in a coffee can. Robberies
 22 can be more prevalent around check cashing outlets. A burglary;
 23 ~~or a fire; or fire~~ could cost them their life’s savings in a matter of
 24 moments.
 25 (d) Lower income households often pay more for financial
 26 services. According to a recent Brookings Institution study, a
 27 full-time worker without a checking account could potentially save
 28 as much as \$40,000 during his or her career by relying on a lower
 29 cost checking account instead of check cashing services. As a
 30 result, without a checking account or lower cost checking account,
 31 lower income families have added difficulty saving for and

1 investing in wealth-building assets, the investments they do make
2 are too often not in their best financial interest, and business
3 opportunities in lower income markets are unduly depressed.

4 (e) A bank account is also the first step to financial security and
5 asset building for many families. A bank account helps people
6 take the first step onto this path. Without an account, it is much
7 more difficult to get well-priced car loans, credit cards, or
8 mortgages, which are the exact financial tools needed to climb up
9 the economic ladder. Many families stay stuck on a different and
10 more expensive path, going to pawn shops, payday lenders, and
11 rent-to-own stores.

12 (f) While financial institutions may see the long-term business
13 potential of underserved areas, they may have a short-term concern
14 that it would take a number of years before they can attract enough
15 retail deposits to become viable. Those concerns are magnified by
16 the fact that lower income workers often need to use banking
17 services in off-business hours because they work in multiple jobs,
18 making it more difficult for banks to attract customers with
19 standard business practices.

20 (g) In 1999, the State of New York established a Banking
21 Development District Program and made available a range of state
22 and city incentives to participating financial institutions. The
23 incentives provided through the program aim to help banks get
24 over short-term obstacles to profitability, enabling them to branch
25 into neighborhoods with long-term business potential, and better
26 serve low-income consumers with existing bank branches.

27 (h) It is the intent of the Legislature in enacting this act to create
28 a Banking Development District Program to spur increased and
29 enhanced banking services in underserved communities that will
30 spur greater financial inclusion and promote local economic
31 development. The desired outcome is that more Californians will
32 enter the financial mainstream and build savings and wealth
33 through participating banks' offerings and marketing of reasonably
34 priced transactional, loan, and credit products.

35 SEC. 2. Division 18 (commencing with Section 40000) is added
36 to the Financial Code, to read:

DIVISION 18. BANKING DEVELOPMENT DISTRICT PROGRAM

40000. The Banking Development District Program is hereby created in order to encourage the establishment of banking branches that provide needed products and services in specifically designated geographic locations where there is an underserved community. These designated locations shall be known as banking development districts. Financial institutions may seek to participate in the program to do either of the following:

- (a) Open a new outlet in an area designated as a banking development district.
(b) Develop and market a new product line or group of services in an existing outlet in an area that is designated as a banking development district.

40001. For purposes of this division, the following definitions shall apply:

- (a) "Bank" refers to any commercial bank, savings bank, savings association, or credit union.
(b) "Unbanked" refers to a person who lacks both a basic checking account and a savings account.
(c) "Underbanked" refers to a person who has a bank account but is not fully integrated in the financial mainstream.
(d) "Underserved community" is a remote location or impoverished area that lacks banking services commensurate with the services provided to higher income areas with a population of similar size.
(e) "Banking development district" is a specifically designated geographic location comprising an underserved community that has been designated as such by the department pursuant to this division.
(f) "Local agency" means a city, county, whether general law or chartered, city and county, or town.
(g) "Department" means the Department of Financial Institutions.

40002. (a) The Banking Development District Program shall be established within the department.

(b) The department and local agencies may compile a list of underserved communities or regions that lack a concentration of

1 banks and services in order to provide banks with a clear
2 demonstration of those areas that are in the most need.

3 (c) The department shall provide information on the Banking
4 Development District Program to the Treasurer and the Treasurer
5 may utilize the Banking Development District Program when
6 promoting the Treasurer’s Time Deposit Program. The Treasurer
7 may take into consideration banking development district areas as
8 a criterion when authorizing participation by financial institutions
9 in the Time Deposit Program.

10 (d) In order to participate in the Banking Development District
11 Program, a local agency, in conjunction with a bank, shall submit
12 an application to the department for the designation of an
13 underserved community as a banking development district.

14 (e) The application shall include, but not be limited to, all of
15 the following components:

16 (1) Clearly define the current and anticipated bank product and
17 service needs of the community.

18 (2) Demonstrate that these needs are not currently being met
19 by existing institutions, including, in particular, their branches in
20 the community.

21 (3) Demonstrate that by coming into the community, or
22 introducing and effectively marketing additional product lines or
23 services suited for lower income consumers in an existing branch,
24 the bank in question is prepared to specifically meet the community
25 needs.

26 40003. The department shall set forth the selection criteria to
27 evaluate a local agency’s application. The selection criteria shall
28 aim to satisfy the following:

29 (a) Result in needed and responsible bank products and
30 marketing of those products to local consumers.

31 (b) Be flexible and allow for differences in local markets.

32 (c) Encourage safety and soundness.

33 40004. The department shall evaluate and approve applications
34 and designate banking development districts with an emphasis on
35 evaluating the extent to which the bank is prepared to offer and to
36 market products suited for lower income consumers, including
37 those products that accomplish the following:

38 (a) Help unbanked Californians open starter accounts. These
39 accounts shall have features to help people overcome barriers that
40 ~~prevent them from opening accounts that~~ *may have prevented them*

1 *from opening accounts. Some options to help people open starter*
 2 *accounts may include the following:*

3 (1) “Second Chance” type features for clients who are listed on
 4 Chex Systems or similar databases.

5 (2) No monthly balance requirements.

6 (3) Limited low-cost overdraft protection plans.

7 (b) Build financial literacy of community members.

8 (c) Provide effective ways to help low-income consumers build
 9 savings.

10 (d) Provide effective ways to help low-income consumers build
 11 or improve a credit record.

12 (e) Provide competitively priced mortgages and auto loans.

13 (f) Offer microloans and microlending products and services.

14 (g) Provide a range of well-priced loans and other products for
 15 small businesses.

16 (h) Provide specialized marketing to inform community
 17 members about the products.

18 (i) Provide specialized training of staff, including both frontline
 19 and customer service staff, to meet the needs of community
 20 members.

21 40005. The department shall develop and provide a range of
 22 incentives to help banks overcome short-term costs that prevent
 23 them from offering products and services that have long-term
 24 business potential. The incentives shall be all of the following:

25 (a) Valuable to banks.

26 (b) Significant enough to encourage banks to locate in an
 27 underserved community or develop new products and services
 28 within existing branches but small enough that a branch’s financial
 29 success requires services to the community.

30 (c) Require reauthorization every two years.

31 40006. Upon designation of a banking development district by
 32 the department, the bank located within the banking development
 33 district shall be eligible for a range of incentives. The range of
 34 incentives may include, but shall not be limited to, the following:

35 (a) Access to interest-bearing time deposits of public funds, as
 36 deemed appropriate and approved by the department.

37 (b) Incentives offered by local agencies as deemed appropriate
 38 by the local agency and the Treasurer.

39 40007. The department may work with local agencies and
 40 economic development officials to develop additional local

1 incentives for participating banks. These local incentives may
2 include, but shall not be limited to, the following:

3 (a) Local agency deposits.

4 (b) Local agencies may help banks locate suitable commercial
5 space for branches and may provide real estate assistance.

6 (c) Local tax incentives. Banks may be eligible for additional
7 incentives if a banking development district overlaps with an
8 enterprise zone.

9 (d) Workforce development. Customized training may be
10 developed for tellers, back-office or administrative staff,
11 information technology, security, and other select job categories.

12 40008. The department shall adopt rules and regulations for
13 the establishment and maintenance of banking development
14 districts, as provided for in this division.

15 40009. The department shall establish and post on its Internet
16 Web site a performance review process to ensure that banks taking
17 part in the Banking Development District Program are meeting
18 their goals and initiatives and that their services are having a
19 recognizable impact on underserved communities.

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