

AMENDED IN SENATE AUGUST 17, 2010

AMENDED IN SENATE JULY 15, 2010

AMENDED IN ASSEMBLY MAY 28, 2010

AMENDED IN ASSEMBLY APRIL 26, 2010

CALIFORNIA LEGISLATURE—2009—10 REGULAR SESSION

ASSEMBLY BILL

No. 2581

Introduced by Assembly Member Bradford

February 19, 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 2581, 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 ~~Treasurer's office~~ *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 ~~Treasurer~~ *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 ~~Treasurer~~ *department* to develop and provide certain incentives to banks, as defined, located in a banking development district. The bill would also require ~~the Treasurer~~ *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, 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

1 full-time worker without a checking account could potentially save
2 as much as \$40,000 during his or her career by relying on a lower
3 cost checking account instead of check cashing services. As a
4 result without a checking account or lower cost checking account,
5 lower income families have added difficulty saving for and
6 investing in wealth-building assets, the investments they do make
7 are too often not in their best financial interest, and business
8 opportunities in lower income markets are unduly depressed.

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

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

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

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

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

3
4 DIVISION 18. BANKING DEVELOPMENT DISTRICT
5 PROGRAM
6

7 40000. The Banking Development District Program is hereby
8 created in order to encourage the establishment of banking branches
9 that provide needed products and services in specifically designated
10 geographic locations where there is an underserved community.
11 These designated locations shall be known as banking development
12 districts. Financial institutions may seek to participate in the
13 program to do either of the following:

14 (a) Open a new outlet in an area designated as a banking
15 development district.

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

19 40001. For purposes of this division, the following definitions
20 shall apply:

21 (a) "Bank" refers to any commercial bank, savings bank, savings
22 association, or credit union.

23 (b) "Unbanked" refers to a person who lacks both a basic
24 checking account and a savings account.

25 (c) "Underbanked" refers to a person who has a bank account
26 but is not fully integrated in the financial mainstream.

27 (d) "Underserved community" is a remote location or
28 impoverished area that lacks banking services commensurate with
29 the services provided to higher income areas with a population of
30 similar size.

31 (e) "Banking development district" is a specifically designated
32 geographic location comprising an underserved community that
33 has been designated as such by the ~~Treasurer~~ *department* pursuant
34 to this division.

35 (f) "Local agency" means a city, county, whether general law
36 or chartered, city and county, or town.

37 (g) "*Department*" means the *Department of Financial*
38 *Institutions*.

39 40002. (a) The Banking Development District Program shall
40 be established within the ~~Treasurer's office~~ *department*.

1 (b) The ~~Treasurer~~ *department* and local agencies may compile
2 a list of underserved communities or regions that lack a
3 concentration of banks and services in order to provide banks with
4 a clear demonstration of those areas that are in the most need.

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

12 (e)

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

17 (d)

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

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

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

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

30 40003. The ~~Treasurer~~ *department* shall set forth the selection
31 criteria to evaluate a local agency's application. The selection
32 criteria shall aim to satisfy the following:

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

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

36 (c) Encourage safety and soundness.

37 40004. The ~~Treasurer~~ *department* shall evaluate and approve
38 applications and designate banking development districts with an
39 emphasis on evaluating the extent to which the bank is prepared

- 1 to offer and to market products suited for lower income consumers,
 2 including those products that accomplish the following:
- 3 (a) Help unbanked Californians open starter accounts. These
 4 accounts shall have features to help people overcome barriers that
 5 prevent them from opening accounts that may include the
 6 following:
 - 7 (1) “Second Chance” type features for clients who are listed on
 8 Chex Systems or similar databases.
 - 9 (2) No monthly balance requirements.
 - 10 (3) Limited low-cost overdraft protection plans. - 11 (b) Build financial literacy of community members.
 - 12 (c) Provide effective ways to help low-income consumers build
 13 savings.
 - 14 (d) Provide effective ways to help low-income consumers build
 15 or improve a credit record.
 - 16 (e) Provide competitively priced mortgages and auto loans.
 - 17 (f) Offer microloans and microlending products and services.
 - 18 (g) Provide a range of well-priced loans and other products for
 19 small businesses.
 - 20 (h) Provide specialized marketing to inform community
 21 members about the products.
 - 22 (i) Provide specialized training of staff, including both frontline
 23 and customer service staff, to meet the needs of community
 24 members.
- 25 40005. The ~~Treasurer~~ *department* shall develop and provide a
 26 range of incentives to help banks overcome short-term costs that
 27 prevent them from offering products and services that have
 28 long-term business potential. The incentives shall be all of the
 29 following:
- 30 (a) Valuable to banks.
 - 31 (b) Significant enough to encourage banks to locate in an
 32 underserved community or develop new products and services
 33 within existing branches but small enough that a branch’s financial
 34 success requires services to the community.
 - 35 (c) Require reauthorization every two years.
- 36 40006. Upon designation of a banking development district by
 37 the ~~Treasurer~~ *department*, the bank located within the banking
 38 development district shall be eligible for a range of incentives.
 39 The range of incentives may include, but shall not be limited to,
 40 the following:

1 (a) Access to *interest-bearing time* deposits of public funds, as
2 deemed appropriate and approved by the ~~Treasurer~~ *department*.

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

5 40007. The ~~Treasurer~~ *department* may work with local agencies
6 and economic development officials to develop additional local
7 incentives for participating banks. These local incentives may
8 include, but shall not be limited to, the following:

9 (a) Local agency deposits.

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

12 (c) Local tax incentives. Banks may be eligible for additional
13 incentives if a banking development district overlaps with an
14 enterprise zone.

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

18 40008. The ~~Treasurer~~ *department* shall adopt rules and
19 regulations for the establishment and maintenance of banking
20 development districts, as provided for in this division.

21 40009. The ~~Treasurer shall establish~~ *department shall establish*
22 *and post on its Internet Web site* a performance review process to
23 ensure that banks taking part in the Banking Development District
24 Program are meeting their goals and initiatives and that their
25 services are having a recognizable impact on underserved
26 communities.