



The **FINANCE PROJECT**

*Helping leaders finance and sustain initiatives that lead to better futures for children, families, and communities*

## **October Funding Tip**

The Finance Project is pleased to announce the next installment in a series of [monthly funding tips](#) for youth programs. These tips cover different financing strategies to help programs finance and sustain their work.

### **Tip: Improve Access to Mainstream Financial Services**

Many low-income families are not connected to mainstream financial services. Approximately 22 million U.S. households do not have a checking or savings account. Instead, they depend on various high-cost, alternative financial service providers to meet their banking needs, including check-cashing stores, payday lenders, title lenders, rent-to-own stores, and tax preparers. A reliance on high-cost, alternative financial service providers undermines low-income families' ability to save and build assets. Although convenient, these providers typically charge significantly higher fees and interest rates than traditional banks, and they sometimes make haphazard loans that fail to account for whether the borrower can repay. These ill-conceived payment plans and loan schemes may lead to higher default rates on loans, lower credit scores, and can trap borrowers in a cycle of debt.

State and local leaders can undertake various strategies to improve access to and regulate financial services for low-income families. These strategies include:

- Linking public benefits to bank services;
- Encouraging banks to expand services for unbanked, low-income families; and
- Spurring private-sector innovation to improve access to, and participation in, mainstream financial services.

By improving access to mainstream financial services, state and local leaders can enhance low-income families' financial security and success. Access to interest-bearing savings and checking accounts can provide a foundation for low-income families to begin accumulating assets. "Banked" households are better off financially and more likely to own assets than are their "unbanked" counterparts.

### **Example from the Field: Bank One's Alternative Banking Program**

In 1998, the Chicago Community Reinvestment Act coalition and the Woodstock Institute negotiated an agreement with Bank One to increase services to unbanked consumers. Working together with these groups, the bank developed the Alternative Banking Program (ABP) for consumers who do not meet Bank One's traditional credit scoring criteria. Through ABP, Bank One offered low-cost checking and saving accounts to unbanked customers with these features:

- A \$10 opening deposit;
- low or no minimum balance;
- low or no service fee;
- unlimited check-writing ability;
- unlimited use of Bank One ATMs;
- some free teller transactions; and
- free financial literacy training.

ABP accounts were designed to offer a safe, convenient, and inexpensive alternative to check-cashing and other high-cost alternative financial services. As of 2002, ABP accounts were available at eight branches in the city of Chicago. This has enabled thousands of consumers, many with no credit record, to establish checking and savings accounts. In addition, the bank marketed other products to ABP customers, including consumer loans, certificates of deposit, and installment loans.

For more information, visit <http://www.kirkwood.edu/site/index.php?d=127>

For more information on this financing strategy and the various strategies on building assets among low-income families, see the Finance Project's publication <http://76.12.61.196/publications/StrategiestoBuildAssets.pdf>.

Within the [Youth Programs Resource Center](#) you will also find an [online clearinghouse](#), jointly developed by The Finance Project and The Forum for Youth Investment. The clearinghouse contains a wealth of information and resources for supporting and sustaining youth programs and initiatives. It is designed to help you learn about data, tools, policies, practices, financing strategies, coordination efforts and technical assistance resources developed by organizations in the field that aim to improve the lives of youth.