Assembly Bill No. 38

Passed the Assembly August 31, 2011

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Chief Clerk of the Assembly

Passed the Senate August 29, 2011

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Secretary of the Senate

This bill was received by the Governor this _____ day of _______________, 2011, at _____ o'clock ____M.

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Private Secretary of the Governor

CHAPTER ________

An act to add Division 18 (commencing with Section 40001) to the Financial Code, relating to banking development districts.

LEGISLATIVE COUNSEL'S DIGEST

AB 38, Bradford. Banking: underserved communities.

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 require the department to work with local agencies to compile a list of underserved communities. The bill would require the department to post that list on the department's Internet Web site.

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

SECTION 1. The Legislature finds and declares all of the following:

(a) Too many Californians are disconnected from the financial mainstream. National estimates show that 10 percent of households, including nearly one-quarter of the minority population, are "unbanked," meaning they lack a basic checking or savings account. In California, 12 percent of adults do not have a checking or savings account, according to the United States Census. Recent market research indicates that Fresno and Los Angeles have the second and third highest percentages of unbanked residents in the country. In San Francisco, the Brookings Institution found that one in five adults, and half the city's African Americans and Latinos, do not have bank accounts. The unbanked are most likely to be people who are less educated and have lower incomes.

(b) The unbanked poor pay more to conduct their financial lives. Utilizing check cashing outlets and money order services to pay bills and expenses can have costly side effects as the result of fees and service charges.

(c) Families without accounts often do not have a safe place to keep their money. They may walk around with large amounts of cash in their pockets, or keep it at home in a coffee can. Robberies can be more prevalent around check cashing outlets. A burglary or fire could cost them their life's savings in a matter of moments.

(d) Lower income households often pay more for financial services. According to a recent Brookings Institution study, a full-time worker without a checking account could potentially save as much as $40,000 during his or her career by relying on a lower cost checking account instead of check cashing services. As a result, without a checking account or lower cost checking account, lower income families have added difficulty saving for and investing in wealth-building assets, the investments they do make are too often not in their best financial interest, and business opportunities in lower income markets are unduly depressed.

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

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

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

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

DIVISION 18. BANKING IN UNDERSERVED COMMUNITIES

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) "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.

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

(d) "Department" means the Department of Financial Institutions.

40002. (a) The department shall work with local agencies to compile a list of underserved communities or regions that lack a concentration of banks and services in order to provide banks with a clear demonstration of those areas that are in the most need.

(b) The department shall post the list compiled pursuant to subdivision (a) on the department's Internet Web site.

Approved ______________________________, 2011

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Governor