



## **Banking Development Districts**

*Promoting Local Economic Development through Enhanced Banking Services in Underserved Communities*

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### **Overview**

To promote local economic development, California policymakers should create Banking Development Districts, a proven way to connect lower-income unbanked Californians with the financial products and services they need to enter the financial mainstream and begin to build savings and assets. It is modeled after New York State's successful Banking Development District program.

### **The Problem with Being “Unbanked”**

Too many Americans lack a basic financial tool – a bank account. In California, 12 percent of households are “unbanked,” meaning they lack a basic checking or savings account. Without a bank account, the unbanked pay more to cash their paychecks, pay their bills, and don't have a safe place to keep their money. Many of these families stay stuck going to the check cashers, payday lenders, rent-to-own stores—where the interest rates can reach several hundred percent. These exorbitant fees cost families as much as \$40,000 in a lifetime.

A bank account is the first step onto the ladder of affordable financial services people need throughout their lives. Without one, it's harder to build credit and get well-priced car loans and mortgages – the exact financial tools needed to plan ahead and climb the economic ladder

### **How Did Banking Development Districts Help in New York?**

While a financial institution may see the long-term potential of branching into an unbanked area, it may take a number of years before the branch can attract enough deposits to become viable. To help banks overcome this barrier, New York State created Banking Development Districts. Communities that lack financial institutions and meet certain criteria are declared Banking Development Districts by the State Banking Commission. The state then agrees to make deposits of state funds into banks that agree to expand services and locate in designated underserved communities. New York City has agreed to offer other public incentives to decrease operating costs. These incentives include: access to below-market public funds; real property tax breaks; and other local tax incentives. Since 1999, over thirty Banking Development Districts have been designated in New York.

### **Can Banking Development Districts Work in California?**

A Banking Development Districts program in California will ensure that more Californians enter the financial mainstream and build savings through participating banks' offerings and marketing of reasonably-priced transactional, loan and credit products. Together with community advocates and the banking community, the state and cities can develop their own packages of incentives to bring banks into underserved communities, and residents into the financial mainstream.

For more information visit:

[www.newamerica.net/programs/asset\\_building/california\\_asset\\_building](http://www.newamerica.net/programs/asset_building/california_asset_building)

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