

# First Step Program

A Thought Bubbles Concept Document for Filene i<sup>3</sup>

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# Opportunity

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## **The Need: Underserved / Unbanked Consumers**

In the United States alone, an estimated 22 million consumers are considered to be unbanked and millions more are considered to be underbanked.<sup>1</sup> While the reasons are numerous, and often not completely understood – fear, lack of trust, cultural heritage, complexity, and lack of understanding are among the reasons most often cited.

The result is that this group of consumers is often taken advantage of by businesses such as check cashers and payday lenders. While these businesses legitimately offer a needed service for the underserved—that banks and credit unions have largely chosen to ignore—they continue to thrive by charging exorbitant fees to cash checks and provide payday loan advances. Consumers that utilize these services tend to fall into a downward, spiraling trap that they simply cannot escape.

Meeting the needs of the underserved has recently become a topic of great interest by institutions such as the National Credit Union Association, the U.S. House of Representatives and Senate, and the State of California. San Francisco in particular is in the early stages of a pilot program entitled “Bank on San Francisco” which 1) encourages financial institutions to develop more starter accounts for lower income unbanked consumers, 2) raises awareness, 3) focuses on education, and 4) attempts to limit the number of check cashers and payday lenders within the city.<sup>1</sup>

## **The Need: Community Based Organizations**

Community-based organizations, such as Goodwill Industries, Ecumenical Social Ministries, the Salvation Army, and many others, recognize the challenges that many unbanked consumers face. These organizations are on the front lines of supporting and mentoring these consumers. Most importantly, they have the *trust* of these consumers. The challenge is that like most nonprofit community-based organizations, they have limited resources to help teach and mentor their clients.

## **Demographics: Underserved / Unbanked Consumers**

- More than 20 million Americans cash more than \$60 billion in checks each year at check-cashing businesses.<sup>2</sup>
- Roughly 9.1% of all US families are without any type of transaction account (unbanked) and over 24% of all minority families are unbanked.<sup>3</sup>
- Over a lifetime, the average full-time, unbanked worker will spend more than \$40,000 just to turn his or her salary into cash.<sup>2</sup>
- Full-time workers without a checking account typically pay \$40 on average to cash their paychecks.<sup>2</sup>
- The typical check-cashing consumer is a full-time worker, has lower-to-middle income, is younger, and is looking for convenience when purchasing financial services.<sup>3</sup>
- Over 52% of unbanked families previously held a checking account, which suggests that something caused them to leave the traditional financial mainstream.<sup>4</sup>

# Solution

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## Solution Overview

Trust, or lack of, is one of the largest barriers to providing mainstream deposit-based financial services to the underserved and unbanked. How do you convince people who have traditionally shunned financial institutions to trust that their money is safe and readily accessible when they need it? The alternative, for unbanked consumers, is to turn to check cashers and payday lenders.

The key to the **First Step Program** is for credit unions to partner with local community based organizations who have earned the trust and respect of these consumers by serving them when others would not. Community-based organizations often lack the resources to educate their clients on the benefits of maintaining an account at a financial institution, how to save, how to borrow prudently, and the importance of establishing and maintaining credit—to achieve their dreams.

Credit unions, through their nonprofit focus and tradition of “members helping members,” are uniquely positioned to: 1) partner with community-based organizations to educate unbanked consumers, 2) provide unbiased financial advice, 3) supply low-cost consumer friendly products such as check cashing services with an automatic savings building component, and most importantly 4) act as a gateway to financial freedom through mainstream products such as savings and checking accounts, micro loans, and so forth.

## First Step: How the Program Works

1. Partner with a community-based organization(s). Provide and/or assist in the delivery of financial education programs at their location(s). Key point: Providing education onsite at the community organization leverages the trust relationship that they have built with their clients and provides a neutral, non-threatening atmosphere. Consumers can learn what financial institutions can offer them, how they differ from non-traditional outlets, such as check cashers and payday lenders, and how credit unions want to help improve their lives from a financial aspect.
2. Provide “Welcome” cards that the community-based organization can give to their clients. These cards will help to provide the recipient with a sense of “privilege” to cash their paychecks for a lower fee and serves as a way to establish a relationship with the credit union partner that is offering the **First Step Program**.
3. Offer a non-member check cashing program at a modest fee. It is recommended that the credit union charge a fee for non-members to cash a check that will cover the credit union’s costs and be comparable to what the market will bear, if not less. The purpose of this service is to introduce the unbanked to credit unions and to slowly build their trust.
4. Consumers who wish to become a member of the credit union can enroll in the **First Step Program**. Benefits of the program include:
  - a. 2% (or reasonable) fee to cash a check.
  - b. Enrollment in a **First Step** savings account where half of the check cashing fee is set aside in the savings account and builds over time to a savings goal of \$100.
  - c. The option of loading the remaining proceeds of their check onto a prepaid debit card, which will provide added safety for the consumer who then does not have to carry large amounts of cash.
  - d. Free money orders/cashier’s checks to pay bills such as rent.

- e. Upon reaching the \$100 savings goal, the member can open a checking account and stop paying the check cashing fees. (The credit union should encourage the member at this point to continue to make regular deposits to the savings account in the amount they would have been paying to cash their paycheck. They are already used to not having these funds available, and it is a great way to get into the savings habit). The \$100 will serve as overdraft protection to eliminate NSF/courtesy pay fees.
- f. In conjunction with the community based organization, the credit union will offer ongoing financial education, such as how to clear a ChexSystems<sup>SM</sup> record, the importance of savings, understanding loan terms and FICO scores, etcetera. The intent is to help consumers improve their financial lives, provide financial stability, and move through the **First Step Program** into a regular, mainstream checking account, with all the associated privileges.

### First Step: A Real Life Example

In our discussions with Goodwill Industries of Colorado Springs, they shared the story of a single mother of two who cashes her weekly paycheck of about \$370 net at a local check casher. She typically takes a taxi to the check cashing facility at a cost of \$25 round trip. The charge to cash her check is \$35, so her total cost each week is \$60, or 16% of her net check.

If a credit union developed a relationship with Goodwill Industries, they could provide education on mainstream financial institutions—such as credit unions. They could help build trust with this single mom, as well as others who utilize the Goodwill. And when she is ready, they can provide her with information on a local credit union that offers the **First Step Program** and give her a “Welcome” card. The “Welcome” card would provide her with the basic offerings of the credit union.

She would find out that the credit union also offers check cashing services, and the fee is only 2%, or about \$7.40 to cash her check each week. Half of the fee is set aside into a savings account for her (\$3.70) if she wants to join the credit union, placing her on a path to building savings. She can also load her check onto a prepaid debit card so she doesn't have to carry cash (safety). Finally, she can get a free money order from the credit union to pay her rent. Once she reaches \$100 in savings (about 27 weeks), she can open a **First Step** checking account. She is now one step closer to a “mainstream” checking account. The savings account serves as an overdraft source to minimize overdraft fees. The credit union would also help her set up direct deposit of her paycheck, so that she wouldn't have to pay for a taxi to deposit her check. The reloadable debit card would allow her to have access to her cash when she needed it, leaving more time to spend with her children.

If she previously had a checking account with a ChexSystems<sup>SM</sup> record, the credit union can help her to clear that record. Once the record has been cleared, she can move to a regular checking account product.

One of the recommendations from “Check Cashing and Savings Programs for Low Income Households: An Action Plan for Credit Unions” is: “Credit Unions should offer products and educational programs that help households with minimal savings and severely impaired credit records to accumulate savings and clean-up their credit records. Over time, this can help many of these families to build a financial safety net and lower the cost of financial services.” That is just what the First Step Program proposes to do.

### Target Market

The target market initially is community-chartered credit unions that may already offer some parts of the First Step Program. In particular, any who offer check cashing services, or are

contemplating offering such services. This program could also be useful for those credit unions that have high turnover SEGs, such as call centers.

### Alternatives Considered

The needs of the underserved and unbanked are garnering more attention from many in the financial services industry. In addition to research and products coming out of Filene, the Center for Financial Services Innovation, an affiliate of ShoreBank Corporation, has also sponsored research, which is listed in the “Sources Cited” section of this report. There are many compelling examples in these publications of success stories, as well as statistics to help a credit union explore options available to grow their field of membership.

There aren't a lot of options currently offered, although as previously stated, we think that is really starting to change. We don't believe you can simply bring people in by offering them a checking account with better pricing. There has to be a way to build trust. Offering solely check cashing doesn't provide much, if any, incentive for a consumer to move away from their current check casher to a credit union. Predominant check cashers accept paying a fee for the service rendered. They trust that local check casher, as their offerings are simple and easy to understand. Walking into a typical financial institution can be overwhelming for someone who has no previous banking experience.

### Risk Analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"><li>• Supports credit union philosophy.</li><li>• Satisfies a consumer need.</li><li>• Potentially grows membership.</li><li>• Generates non-interest fee income.</li><li>• Encourages personal savings.</li></ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"><li>• In order to stay competitive the fee may need to be lower than 3% and it may not be substantial enough to generate enough savings and/or income.</li><li>• Members may not like the limitations on the savings account.</li></ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"><li>• Not being done currently – true innovation.</li><li>• Differentiates CUs from competition (banks and check cashing services/payday lenders).</li><li>• Educates members on the importance of having a Primary Financial Institution and may generate new checking accounts.</li></ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"><li>• Potential limitations on fee that can be charged for this service.</li><li>• Income may not be offset by losses (e.g., NSF, Fraud, etcetera.).</li></ul>

## Benefits

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### **How the First Step Program Benefits the Member**

The **First Step Program** benefits the member/consumer by teaching them to trust financial institutions/credit unions for their financial needs. They learn to have financial freedom, build savings, and expand their futures by providing financial options to do what they want to do. They learn the importance of saving for a rainy day, how to borrow wisely, how to purchase a first home, etcetera. Finally, the consumer benefits by utilizing a closely regulated business.

### **How the First Step Program Benefits the Credit Union**

The credit union benefits by being a helping hand in the community, and as a result will grow their field of membership. A credit union is built to help their members, and if credit unions want to have more of an impact in their communities, they must create a viable presence by filling an unmet need for the consumers in that community. They need to do more than just become involved with local community organizations; that will not in-and-of-itself drive membership growth. A credit union has to provide a service and build trust.

Finally, the credit union benefits by demonstrating that they serve the underserved. This goes back to one of the philosophical values of credit unions: to deliver high-quality financial services to people of modest means. With the Community Reinvestment Act (CRA) getting continued attention on Capitol Hill, credit unions need to be prepared for questions from their lawmakers. The **First Step Program** would be a great way to demonstrate a credit union's commitment to its community.

### **How the First Step Program Benefits the Community**

The **First Step Program** benefits the community by helping consumers improve their financial lives. Living outside the financial mainstream provides limited options for consumers. Fees for services are often higher. There is not an effective way to build a credit history, and therefore, borrowing at reasonable rates and terms is restricted. Many consumers want to buy a home, and a good credit history is essential to qualifying for a home loan.

The more people in a community with solid financial ties, the more they can invest in their communities through small businesses and home ownership. Consumers can be more productive with financial stability.

The important thing to remember is that this is not a short-term way to build membership, but a long term approach that benefits the member, the credit union, and the community.

## Resource Requirements

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To ensure a successful **First Step Program** it will be essential to have the proper resources and staff in place. Credit unions that have an established relationship with a community-based organization will be better equipped to incorporate the **First Step Program**. At least five key resources will be required, including credit union support from the board, management, and staff; community support; compliance support; marketing support; and technical support.

### Credit Union Support

Developing the **First Step Program** may require the establishment of a community/business development leader or team in order to effectively gain support from the community. Once the team is in place, organizational planning may include the following steps:

1. Assess the market of unbanked consumers in your area.<sup>1</sup> Areas to research are: size and segmentation of the market, focus groups to understand consumer preferences, and a survey of what other local financial institutions are doing.
2. Evaluate the interest of community-based organizations in collaborating with your program.<sup>1</sup> An organization that has regular ongoing contact with consumers would be ideal.
3. Create a collaborative process for your credit union and the community-based organizations in your area to develop the initiative.<sup>1</sup>

The goals of the product development team will be to develop a set of “minimum thresholds” for their new product. Considerations and minimum requirements may be:

1. Opening second chance checking accounts for those with non-sufficient funds/overdraft history on ChexSystems<sup>SM</sup>.
2. Offering money management training for members.
3. Considering a monthly minimum balance requirement to help avoid NSF fees/overdrafts.
4. Considering a monthly maintenance fee for the second chance checking account to offset potential losses.

### Money management and educational programs

The product development team will need to develop a set of standardized criteria for financial education classes in your local area and may want to create a list of approved financial education classes. The goal will be to ensure that people who sign up for these classes receive consistent and culturally relevant training. The Consumer Credit Counseling Service (CCCS) provides comprehensive consumer credit education, counseling, asset-building, and debt-reduction programs to a wide range of consumers. The team will need to work with these groups to develop a way to keep track of the accounts that are opened as part of the program, and to evaluate their success by tracking account balances over time.

WestStar Credit Union in Las Vegas provides free classes to members regarding checking accounts and credit management.<sup>11</sup> Since the inception of the Second Chance Checking program in 2001, approximately 400 members have completed the checking account course.<sup>11</sup>



## Community Support

Working with local government officials may be critical to gaining the support of your local community organizations. Leverage credit union staff members that are already engaged with local charities or organizations, local officials such as the Mayor, Office of Community Development, and local community-based organizations that help low-income families. They can help to bring on other partners, give your effort credibility, and attract media attention. Endorsements by the media or local city government can also signal to unbanked residents that your endeavor is genuine and that your credit union can be trusted.

## Compliance Support

Acceptance of the Mexican Matricula Consular Card and other foreign IDs as valid identification for opening accounts may be helpful. For example, only 404 financial institutions in the United States currently accept the Matricula as a valid form of identification for opening a bank account, mainly because they are unclear about what they can and cannot do under the Patriot Act. The New Alliance Task Force, an initiative led by the Federal Deposit Insurance Corporation (FDIC) in the Midwest to educate and inform banks about the card and other alternative IDs, may be of assistance.

## Marketing Support

Your marketing team may develop an outreach strategy or contact advertising firms that may donate time and expertise to develop a program logo and tagline. Advertising materials such as brochures, paycheck stuffers, billboards, bus advertising, television and radio public service announcements, and posters can be created to ensure the program's success. The marketing team can develop contacts and relationships with people who could be messengers to the unbanked demographic. The team may want to contact institutions that serve or employ people who are likely to be unbanked. These may include schools, unions, churches, community organizations, county welfare programs, community colleges, and businesses with significant numbers of entry level jobs, such as call centers.

## Technical Support

The credit union's technical staff or host vendor will need to set up parameters on the host system to accommodate the First Step savings and checking accounts. The checking account should be set to automatically pull from the savings account in the event of an overdraft situation. If possible, and depending on the credit union's preference, the checking account should not allow overdrafts beyond the checking and savings account balances. In the event that both accounts are depleted, the checking account should be temporarily frozen until the member can bring their account balances back to an acceptable level.

If the credit union chooses to offer a prepaid debit card, then the following technical considerations may apply:

- a. Partnership with a prepaid debit card vendor will require, at a minimum, a dedicated connection to the Internet for fulfillment of the card by the credit union.
- b. A lobby phone and/or PC that can be accessed by the member will be needed for activating and personalizing the card. Many prepaid vendors require personal information from the consumer for long-term usage and reloading of prepaid debit cards.

## Appendix A: Marketing Plan

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### How to Locate Local Community-Based Organizations

There are several ways to locate your local community-based organizations. We recommend seeking out community-based organizations that offer support programs for families, the underemployed, immigrants, and minorities, and that fit within the unbanked demographic for the First Step Program. If the credit union is not already involved in the local community, a quick way to search for local community based organizations is via the web. There are several volunteer search organizations such as Volunteermatch.org, Idealist.org, Volunteer.gov, 1-800-Volunteer.org, and Networkforgood.org that will help the credit union find local organizations.

The volunteer sites are typically utilized to help individuals interested in finding volunteer opportunities in their communities. However credit unions can use them to find local support-service type community-based organizations. Organizations that appear under keywords such as *education, literacy, financial education, family services, homelessness, housing, poverty, and human service* will more than likely offer classes to their clients in English, parenting, and computer skills, and will either have existing financial education classes or be in need of a knowledgeable credit union partner.

Government agencies that provide services for struggling families and individuals are also good resources for locating local family services type community-based organizations. Typically, once a family or individual receives assistance from a government agency, they are given a list of community-based organizations that they can go to in order to receive further assistance for housing, food, clothing, job reentry assistance, etcetera.

Credit unions who serve religious or church memberships can make contact with local community-based organizations through those affiliations.

### Contacting Your Local Community-Based Organizations

Contact the program director at the organization to set up a meeting to discuss what the credit union has to offer. The program director typically oversees all the different programs that support clients in their efforts to achieve self-sufficiency and independence. Find out about programs they currently offer, whether there are other financial institutions supporting their programs with volunteers in the classroom, and what their immediate and future needs are for financial education. We strongly recommend that the credit union leaders take the time to make site visits and meet the program director to understand the needs of their clients. Community-based organization staff is highly trusted by their clients, who are your credit union's future members, so it is imperative to build a strong relationship with them.

### Presenting the First Step Program to a Community-Based Organization

Depending on the educational training options the credit union can offer, your approach with local community-based organizations will vary. If you already have a financial literacy program in place or plan to build your own, work with the community-based organization to ensure it meets their needs. Changes to your current offerings may be needed, so it is important to be flexible. If the credit union wants to approach an organization that already has its own financial education plan in place, first check to make sure it isn't being run by another financial institution and they do not have an exclusive relationship. If their financial education program is self-run, offer the benefits of the First Step Program to their clients as they complete their financial education courses. Provided in this report is a sample brochure for community-based organizations to hand out to their clients, laying out the benefits of the ***First Step Program***.

Take your first step today!

Here's how:

- 1) Visit your local ABC Federal Credit Union.
- 2) Bring a form of legal identification with you to your local ABC Federal Credit Union
- 3) Meet with a new accounts advisor and get ready to take your next step!



123 Main Street  
Any City, Any State, 12345  
xxx-xxx-xxxx

[www.abcfcu.org](http://www.abcfcu.org)

# FIRST STEP PROGRAM

Start Here to Reach  
Your Dreams



Outside of Sample Brochure



**What is the First Step Program?**

The First Step Program is designed to assist you in reaching your dreams. The First Step Program helps you take your first step towards making sounder financial decisions by establishing a trusted relationship with ABC Federal Credit Union.

We can help you get started towards opening a checking account and start saving towards the future.

You have options available to you other than paying high fees to cash your checks and purchase money orders to pay your bills.

At ABC Federal Credit Union, we have products and services designed to get you one step closer towards financial freedom.

**What does the First Step Program include?**

- ♦ A low 2% Check Cashing Fee with half of the fee being deposited into a First Step Savings account in your name.
- ♦ When you reach \$100 in your savings account, you can open a First Step Checking account, and start the process of establishing a better credit history.
- ♦ Reloadable prepaid Visa card you can use anywhere to pay for gas, groceries, etc.
- ♦ Free cashiers checks and money orders to pay for rent, bills, etc.
- ♦ Access to free budget counseling at [www.abcfcu.org](http://www.abcfcu.org).

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Inside of Sample Brochure

## Appendix B: Educational Plan

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A key component to the success of transitioning the unbanked into a mainstream suite of products and services will include credit union advisement and consumer education provided by the credit union.

If the credit union does not already have a financial literacy program in place, there are several options available to starting such a program.

### Option #1

Seek out local community-based organizations that have existing financial literacy programs and that are willing to partner with you. Many community-based organizations have on-site courses that their clients must attend in order to receive services. Often they are in need of volunteers to teach the programs. The typical course offering includes English as a Second Language (ESL), how to apply for a job, parenting, and the like. Depending on the resources and support a particular community based organization may have, they may also offer financial literacy courses. Be prepared to offer credit union staff to teach classes, and offer to incorporate the **First Step Program** from your credit union into their existing programs.

### Option #2

Partner with an organization that has the resources to educate your members on-site. Offer an online, self-paced tutorial that members must complete in order to participate in the **First Step Program**.



Get Checking (<http://www.getchecking.org/>) is an organization that will partner with you and bring the instructors to your members. Get Checking can teach members on-site at your branch locations or your local community-based organizations. In order to receive the benefits of trained staff from Get Checking, the credit union must open membership accounts for their audience.



Get in Balance (<http://www.getinbalance.org/>) offers a self-paced learning program for members to learn about practicing responsible checking habits. Partnering with Get in Balance has similar requirements of the participating credit union to provide a **First Step** type program to the participants.

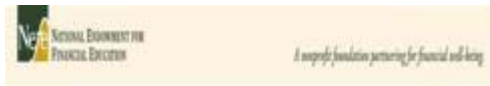


Balance Pro (<http://www.balancepro.net/>) and Balance Track (<http://www.balancetrack.org/>) are online educational modules that provide members with important information and quizzes to test their knowledge.

### Option #3

Create your own financial literacy program and launch it to local community-based organizations that need your knowledge and resources.

Many community-based organizations want to offer financial literacy classes to their clients, but they do not have the resources. They lack volunteer resources, a curriculum, or time. Community-based organizations welcome assistance from volunteers with financial backgrounds to teach classes. Every community-based organization that supports struggling families and individuals will agree that the road to self-sufficiency includes understanding how to take care of finances and to participate in the mainstream financial market. By starting a program at the credit union, one can design a financial literacy program that caters to the products and services that are offered at the credit union. This gives the credit union flexibility to decide what areas members need more education in. Building a financial literacy curriculum need not be an arduous task. There are open source curriculums available for use. Two widely-used programs are available from the National Endowment of Financial Education and the FDIC.



National Endowment of Financial Education (NEFE)  
(<http://www.nefe.org/tabid/89/Default.aspx>)



FDIC Money Smart program  
(<http://www.fdic.gov/consumers/consumer/moneysmart/index.html>)

Whether your credit union decides to partner with an organization that already has a program in place or decides to create a program, financial literacy is a very critical factor and must be included in the **First Step Program**. Financial education courses are in demand at community-based organizations. Credit unions share a similar goal with community-based organizations: to help the unbanked market become self sufficient and financially responsible citizens.

## Appendix C: Additional Resources

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### **REAL Solutions**

REAL Solutions partners with state credit union leagues to create credit union solutions for members that are struggling to make ends meet.

<http://www.ncuf.coop/home/programs/realsolutions/realsolutions.aspx>

### **National Community Investment Fund**

The Retail Financial Services Initiative (RFSI) is a three-year project organized by NCIF that seeks to increase the quantity and quality of financial services for unbanked and low-to-moderate-income consumers.

### **Community Development Departments of the Federal Reserve System**

These departments promote the active engagement of depository institutions in traditionally underserved markets for credit and other banking services.

<http://www.federalreserve.gov/otherfrb.htm>

### **The Brookings Institute Metropolitan Program**

The Metropolitan Policy Program was launched in 1996 to provide decision makers cutting-edge research and policy analysis on the shifting realities of cities and metropolitan areas.

<http://www.brookings.edu/metro/metro.htm>

### **The Center for Financial Services Innovation**

Acting as a hub for research, partnerships and change, CFSI helps pioneering institutions both large and small to better serve underbanked consumers across the economic, geographic and cultural spectrum. <http://www.cfsinnovation.com/index.php>

### **New Alliance Task Force**

The New Alliance Task Force is a partnership between the FDIC, the Mexican Consulate, banks, community-based organizations, and many others. The partnership has opened 50,000 new bank accounts totaling \$100 million.

[http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/latino\\_mkt.html](http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/latino_mkt.html)

### **Florida Central Credit Union**

Successfully developed a program that offers check cashing, micro loans, etc.

[http://www.fanniemaefoundation.org/programs/pdf/fscs\\_FL\\_CentralCU.pdf](http://www.fanniemaefoundation.org/programs/pdf/fscs_FL_CentralCU.pdf)

### **WestStar Credit Union**

Successful credit union 2<sup>nd</sup> Chance Checking account program.

<http://www.weststar.org/pages/accounts/2ndchk.html>

### **VALID Systems**

VALID Systems, located in Fort Worth, Texas, provides check cashing technology for financial institutions. <http://www.validsystems.net/>

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## Thought Bubbles: The Participants

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