Department of Consumer Affairs
Office of Financial Empowerment

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before the
City Council Committee on Community Development
at the
Hearing on
"Community–Based Financial Institutions and Their Impact on Community Development"

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Good morning Chairman Vann and members of the Committee on Community Development. My name is Cathie Mahon and I am the Assistant Commissioner and Executive Director of the Department of Consumer Affairs' Office of Financial Empowerment (OFE). On behalf of Commissioner Jonathan Mintz and myself, I thank the City Council Committee on Community Development for convening this hearing and for the opportunity to comment on community development financial institutions (CDFIs) in New York City.

The Office of Financial Empowerment (OFE) was launched in December 2006 as the first municipal office with the express mission to educate, empower and protect those with low incomes in the financial services marketplace. CDFIs have played a pivotal role in the City's efforts to help New Yorkers with low incomes to move forward economically.

There are 66 community development financial institutions in New York City, 45 of which have received designation by the US Treasury Department's CDFI Fund. These institutions—which include community development credit unions, banks, loan funds and venture capital funds—provide critical capital for small businesses, homeowners and households to build assets and move forward financially. As important, many of these institutions also provide basic, affordable banking services in communities that have long been unbanked. In 2008, these institutions collectively held $1.85 billion in outstanding loans to New York City businesses and families. The vast majority of these loans go to minorities and women, groups that traditionally struggle to obtain credit from major banks. CDFIs provide these loans at reasonable rates and with thorough education to ensure that borrowers are using credit productively.

Safe Banking

First and foremost, community development financial institutions provide access to simple, safe and affordable financial products and services targeted to meet the needs of the mostly low income communities they serve. Recent analysis by DCA's OFE office indicates that there may be as many as 827,000 adults in New York City living in households where no one holds a checking or savings account.[1]. Without a bank account, New Yorkers are more vulnerable to theft, lack access to reasonably-priced credit, and face serious challenges to savings and accumulating assets. However, obtaining a checking account at most large banks these days can mean small accountholders are subject to excessive hidden fees.

[1] Unpublished data. Social Compact Analysis of Acxiom data; indicates 13% of New York City households have no evidence of financial transactions in the last year.

A recent DCA study of two neighborhoods—Melrose in the Bronx and Jamaica, Queens—found that while 69% of residents reported having checking or saving accounts, 75% still used a check casher or other alternative financial services provider at least once every few months.[2] The main reason for avoiding banks given by respondents to this survey was high, unpredictable fees. The study also found that comfort and trust in financial institutions was a critical deterrent to banking. Further, while we found that product features and financial constraints play a larger role in banking decisions than proximity to financial institutions, the study also revealed that banks are largely concentrated in higher income neighborhoods in the City. The Bronx, for example, has roughly half the mainstream financial institutions per capita compared to the City as a whole.

When OFE sought to address the problem of unbanked individuals in New York City, community-based financial institutions stepped up to the plate. In 2007, we began working with five banks and five credit unions—seven of which are CDFIs—to offer the Opportunity NYC Account, a safe, no fee, starter bank account exclusively for participants in the City's conditional cash transfer program. Community development credit unions and banks were ideal partners with DCA's OFE because they were willing to offer a single product with common features, to send staff onsite to open accounts during orientation sessions and they have a physical presence in the neighborhoods where participants live and work. This initiative opened over 1,800 savings accounts. While 55% of the program's participants were unbanked at inception, only eight percent are unbanked now. Moreover, 98% of those bank accounts are still open today, with an average balance of nearly $200.[3]

[2] (2008) New York City Department of Consumer Affairs, "Neighborhood Financial Services Study: An Analysis of Supply and Demand in Two New York City Neighborhoods."
[3] Opportunity NYC account balance data is limited to institutions which voluntarily report to DCA's OFE and is not comprehensive.

OFE will soon expand its safe banking initiative through its network of financial empowerment centers, which offer free, one-on-one financial counseling in 12 locations throughout the City. These Centers—which have already served more than 2,500 New Yorkers—connect unbanked or underbanked residents to safe accounts, and help them to manage their finances and choose appropriate products through individualized counseling services. We would be happy to work with Council Members to promote these services in low and moderate income districts. I am pleased to report that we offer counseling in or around nearly all of the districts represented by the members of this Committee.

Building Emergency Savings

Recent research from the Community Service Society tells us that less half of low and moderate income New Yorkers have $500 they could use in case of an emergency, and one-third of lower-income households have no savings at all.[4] This means that when unanticipated expenses arise—anything from an unexpectedly high utility bill to a health emergency or a cut-back in work hours—families rely on borrowing from friends and family or high cost loans from pawn brokers, internet payday lenders or others. Having buffer savings to manage these destabilizing events can be the difference between getting *by* and getting *behind*—and eventually, will help people get *ahead*.

DCA's OFE launched a pilot program, $aveNYC, to help New Yorkers with low incomes build savings. $aveNYC offers a 50 percent match on savings if people save for a full year. OFE raised matching support from private foundations to pilot this initiative, which gets people started on a

[4] Community Service Society of New York, (2008). Unheard Third 2008: Financial Development and Economic Insecurity. The Other Financial Crisis: New Yorkers are struggling and Worried as they Watch Wall Street Collapse. Accessed November 25, 2008: http://www.cssny.org/research/unheard_third/survey_findings/.

pathway to savings and then evaluates what people save for and how savings can stabilize their finances. $aveNYC accounts are offered by six community-based financial institutions—four credit unions and two banks—and are made available through select free tax sites around the City.

Over the course of the two-year pilot, OFE has opened more than 1,200 accounts and helped people commit to saving over $400,000. Findings from our first year, released this summer, demonstrate that even people with very low incomes can and will save when given the right incentives and opportunities, even in this economic downturn. Over 75 percent of the first-year participants saved for the full year and received the match, saving an average of over $600 despite an average income of only $15,500 a year. With the support of the Ford and Rockefeller Foundations, OFE will offer the program again in 2010 and will be pleased to provide members of the Council information on where and how your constituents can open an account.

The $aveNYC account depends upon the meaningful engagement of community-based financial institutions. Many of them offer free tax preparation at their branches; others were willing to develop secure protocols for empowering the staff of community-based organizations to open the accounts on the spot at free tax sites. These banks and credit unions also report regularly to DCA's OFE about the program, communicate with the program participants, and manage the accounts to administer the match payments. These institutions consistently have been willing to devote staff energy and resources to untested efforts to help the underbanked because they have an express mission and dedication to doing so. Such a commitment is not something OFE has experienced in its partnerships with larger, national banks.

Finally, the City is now reaching out to CDFIs to help develop an innovative loan program to support New Yorkers overwhelmed by high-cost credit card debt. These social purpose institutions are ideal partners for a range of products and services for the City's residents in need.

DCA's OFE will continue to deepen its partnerships with all financial institutions willing to work creatively to offer transactional savings and credit products to meet the needs of low- and moderate- income households. However, to bring more institutions to the table, and to increase the capacity of community development credit unions to offer such products, the City must consider using strategic deposits.

In October, Mayor Michael R. Bloomberg made clear that a priority for his third term is to help low income credit unions provide personal, home and business loans to struggling communities by injecting capital into these institutions through municipal deposits.[5] Targeted investments and lending would help to restore economic activity to communities devastated by the recession.

Unfortunately, state law bars city governments, school districts, authorities and other local government entities from making deposits in credit unions, savings banks and savings and loans institutions. While these federally-insured and regulated institutions are absolutely as safe a place to deposit money as a bank, New York is one of only five states that require municipal funds to reside solely in banks.[6] Even the Banking Development District program, which provides below-market deposits to encourage banks to open new branches in underserved communities, and has

[5] Barbaro, Michael, "For a 3rd Term, Mayor Outlines Nuts-and-Bolts Goals to Suit the Lean Times," New York Times. October 16, 2009.
[6] The other states that allow credit unions to accept deposits but do not allow municipal government to make deposits to these institutions are South Carolina, Ohio, Kentucky and Nebraska.

the express goal of increasing access to the underbanked, bars participation by the very credit unions that have historically struggled to serve these neighborhoods. This is illogical and indefensible.

We call upon the City Council to issue a Home Rule Message requesting authority from the New York State Legislature to enact legislation that would permit deposits into savings banks, credit unions and savings and loans institutions, and stand ready to support the Council's efforts towards this goal.

We also ask the Council to join DCA's OFE in supporting the New York CDFI Coalition's efforts to obtain funding for the New York State CDFI Fund. Each dollar invested in these institutions creates $10 in small business, home and personal lending. Such economic development makes good sense, particularly in these difficult times.

Thank you for the opportunity to comment on these important issues. I would be happy to answer your questions.