

From Cashing Checks to Building Assets:

A Case Study of the Check Cashing/Credit Union Hybrid Service Model

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*A Case Study of the Check Cashing/Credit Union
Hybrid Service Model*

By Laura Choi
Federal Reserve Bank of San Francisco

The views expressed herein are those of its author and do not necessarily reflect those of the Federal Reserve Bank of San Francisco or the Federal Reserve System. This paper is for research purposes only and is not a direct endorsement of the Prospera model or Self-Help Federal Credit Union.

INTRODUCTION

Community Trust Prospera (“CT Prospera”) is a hybrid financial service provider that combines the accessible services of a check-casher with the longer-term depository and lending relationship opportunities of a mainstream financial institution. CT Prospera is based upon the “micro branch” business model, which Self-Help Federal Credit Union (FCU) developed to serve the needs of the unbanked and underbanked. In early 2010 a pilot branch was launched as a division of Self-Help FCU in East San Jose, California in a largely Latino immigrant neighborhood.¹ As the business model name implies, a micro branch has a small physical footprint, similar to a check cashing outlet, and is designed to create an inviting, safe, and accessible environment for clients who may not feel comfortable entering a traditional bank branch. The micro branch model aims to meet the immediate financial service needs of unbanked and underbanked individuals by providing the transparent and convenient transactional services they need, such as check cashing, money orders, and remittances. However, unlike a traditional check cashing outlet, CT Prospera is a full-service credit union and is able to transition these customers into depository and credit accounts, thereby bringing them into the financial mainstream.

The Community Development department of the Federal Reserve Bank of San Francisco engaged in this research effort to identify new models for increasing access to financial services and improving household financial stability for low- and moderate-income (LMI) individuals. The recent economic trends of high levels of personal debt, high unemployment, low savings and low wages have created unsustainable financial conditions for many households. Data from CFED suggests that 43.1 percent of American households are in “liquid asset poverty,” meaning they lack sufficient liquid assets to subsist at the poverty level for three months in the absence of income (see Figure 1).² Given that so many families lack sufficient savings to weather a financial emergency or job loss, it is vital to increase our understanding of how to better reach and serve these households.

Figure 1 – Income and Asset Poverty in the 12th District, 2009

	Income Poverty	Asset Poverty	Liquid Asset Poverty
Alaska	8.5%	21.7%	38.8%
Arizona	14.7%	33.9%	44.4%
California	13.8%	30.9%	43.1%
Hawaii	11.1%	18.7%	22.8%
Idaho	14.9%	24.8%	44.3%
Nevada	13.1%	45.2%	52.2%
Oregon	14.4%	28.2%	37.6%
Utah	12.3%	22.0%	35.0%
Washington	11.9%	23.2%	30.7%
U.S.	14.0%	27.1%	43.1%

Source: CFED Assets and Opportunity Scorecard

This report summarizes information gathered from stakeholder interviews and data from CT Prospera’s first two years of operation. While the pilot is still underway and new findings are constantly emerging, this report is intended to capture lessons learned thus far and provide an informational resource for any organizations that are interested in learning from the model.

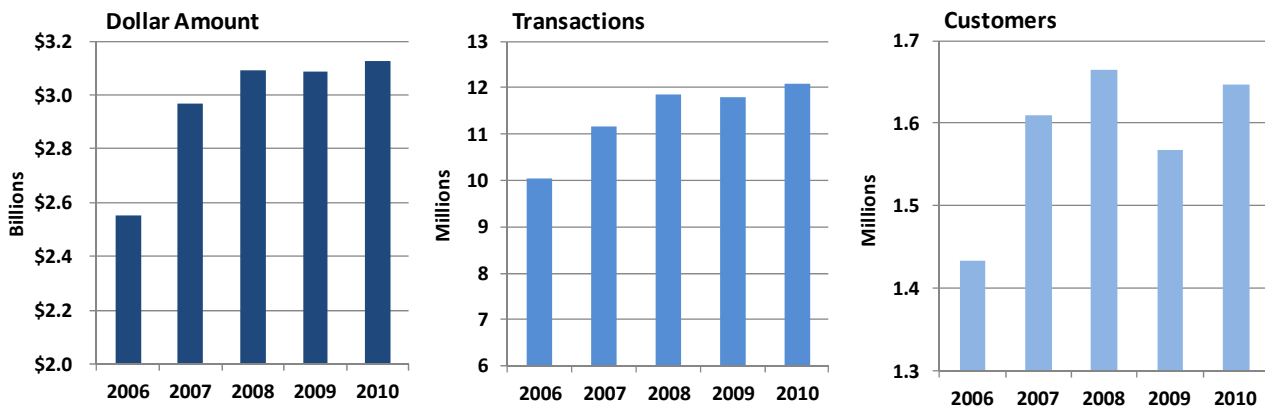
¹ The branch was originally opened under the name “Micro Branch,” but was rebranded to Prospera in December 2012.

² CFED. Data reflect values for 2009. Retrieved from <http://scorecard.assetsandopportunity.org>

DEVELOPING THE CONCEPT

The development of the micro branch concept was one of the earliest activities of Self-Help’s California operations, which were established in 2006. According to Steve Zuckerman, Managing Director of Self-Help California, the impetus for the concept was a “recognition that the delivery of financial services was becoming increasingly bifurcated,” with abundant mainstream financial services for higher-income clients, and rapidly expanding payday lending services targeted at lower-income clients. Indeed, during the period from 2006 to 2008, the total dollar volume of deferred deposit (payday loan) transactions in California increased over half a billion dollars and the number of transactions grew by over 1.8 million (see Figure 2).³ In addition, data from the 2011 Federal Deposit Insurance Corporation’s (FDIC) National Survey of Unbanked and Underbanked Households shows that unbanked and underbanked households in California are more likely to be black or Hispanic, low-income, and have limited educational attainment.⁴

Figure 2 – Payday Lending in California, 2006-2010



Source: California Department of Corporations

In addition to payday lending, low-income unbanked and underbanked households also tend to rely on check cashing services. These check cashers can charge high fees and often do not offer lower-cost alternatives. According to the Brookings Institution, 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.⁵ In addition, check cashing services are often an inhibitor to savings; an individual leaves the transaction with their entire paycheck in cash, and no place to keep what’s left over after monthly expenses, making it easier to spend the entire amount. Reliance on these types of alternative financial services thus impedes lower-income households’ ability to save and build assets over time.

³ California Department of Corporations. (2010). 2010 Annual Report, Operation of Deferred Deposit Originators under the California Deferred Deposit Transaction Law.

⁴ Federal Deposit Insurance Corporation. (2011). *National Survey of Unbanked and Underbanked Households*. <http://www.fdic.gov/householdsurvey/>

⁵ Fellowes, M. and Mabanta, M. (2008). “Banking on Wealth: America’s New Retail Banking Infrastructure and Its Wealth-Building Potential,” Brookings Institution.

One prominent model for increasing access to the financial mainstream is the Bank On initiative, which began in San Francisco and has since spread across the country.⁶ Financial institutions participating in Bank On offer starter accounts with features for unbanked individuals. Research from the New America Foundation identified the importance of meeting the “real needs” of the unbanked individual and recognizing the diverse needs of the unbanked.⁷ One of the top lessons learned from the Bank On experience was the importance of better understanding how to better reach and serve the target unbanked and underbanked market.⁸

Haydeé Moreno, CT Prospera Director, explained that Self-Help saw the need for a new type of model that could bridge the gap between alternative and mainstream financial services. “We know what our target market is doing right now—using check cashers—and we know how they could be better served. We decided to develop a concept that could easily get them from Point A to Point B,” she said. As part of a market research effort to understand their target clientele, Moreno led a series of interviews and focus groups with unbanked and underbanked individuals over the course of a year and a half. As summarized in Figure 3, the interviews provided insight into the challenges and issues facing many unbanked and underbanked individuals and their underlying motivations and reasons for choosing particular financial services. Among the key themes were the difficulties associated with facing constant fluctuations in their personal financial situations, the complexity and lack of clarity around traditional financial products, and fears related to providing appropriate documentation for financial services. Other commonly cited issues were indifference, where some clients didn’t seem to be bothered by check cashing fees, and the importance of convenience—clients didn’t want to have to go out of their way, or deal with the hassle of opening a new account somewhere else.

Figure 3 – Findings from Market Research on Barriers to Mainstream Financial Services

FLUCTUATIONS IN FINANCIAL SITUATIONS

- Individuals experience ongoing fluctuation from having some savings to living paycheck to paycheck
- Banks do not accommodate need for liquidity during tough times
- People use bank accounts when they have savings, but stop using accounts to avoid fees and rely on check cashers when savings are depleted

“I can’t use my bank account now because I don’t have any money.”

- Maria, San Jose, CA, discussing why uses check cashers exclusively, despite having a bank account

⁶ See www.joinbankon.org for more information about the Bank On initiative.

⁷ Phillips, L. & Stuhldreher, A. (2011) Building Better Bank Ons: Top 10 Lessons From Bank On San Francisco. New America Foundation, <http://assets.newamerica.net/sites/newamerica.net/files/policydocs/PhillipsStuhldreherBankOn2-11.pdf>

⁸ Ibid.

LACK OF CLARITY, COMFORT & CONFIDENCE

- Financial products perceived as complex
- Concern that important information about products is lost in translation or omitted; desire for explanation in plain terms in one's native language
- People either avoid banking products all together and use simple, straightforward check cashing or open accounts but avoid plastics (both debit and credit cards) or paper checks

"I go to a check casher because at the bank they don't speak my language and I can't tell them what size bills I want."

- Jaime, Livermore, CA

PROPER DOCUMENTATION

- Lack of necessary ID
- Fear/nervousness about status leads to hesitancy to share IDs with financial institutions
- As a result, people avoid banks/credit unions, use check cashers. Go to the same check casher to avoid the need to register with multiple stores (hypothesis)

"They didn't cash my check because I didn't have an ID and wasn't registered there. I'm not comfortable with the registration process. I go to where I always go because I'm registered there."

- Flor, Livermore, CA

CONVENIENCE AND INERTIA

- Convenience is a key criterion for choosing a check casher/bank
- Stickiness of current habits: it's a bother to register with a new check casher or switch bank accounts
- Price insensitivity around check cashers: assumption that one place will be same price as the next, or convenience trumps cost differences

"This one [check casher] takes \$26 each time I go there. I went to another one; they took \$22 this time. But I live here, would saving \$4 dollars to go there be worth it? I don't know."

- Refugio, Livermore, CA

INDIFFERENCE TO/ACCEPTANCE OF STATUS QUO

- Acceptance that things are the way they are
- Individuals don't perceive the high-cost of check cashing as painful, even though high bank fees are seen as painful
- People are not seeking a solution or change

"I used to have an account but I got charged fees. I don't think I'd open one again. This [using a check casher] is working for me."

- Anonymous CA Check Cashing customer

“The information gathering process was so important because it shifted our perspective to focus on *why* they [unbanked and underbanked individuals] are doing what they’re doing and acknowledge that what they’re doing makes complete sense for them,” said Moreno. “It made us ask ourselves: How can we tailor our business model to line up with what they’re doing right now? And how can we help them make behavior changes that are intuitive and gradual, rather than expecting them to jump from Point A to Point B?”

Building on these findings from the 18-month market research and needs assessment phase, Self-Help decided to pursue a strategy that would combine check cashing services with mainstream financial services in a seamless manner. At the time in 2008, the Self-Help California team was pursuing an opportunity to partner with and potentially acquire a check cashing chain, but the economic crisis hit and the acquisition was no longer feasible. Despite the deal falling through, it provided an opportunity for Self-Help to further develop its understanding of the check cashing business from the inside. Moreno points out that one of the critical lessons from the market research was that, “People weren’t looking for an alternative to check cashing because the fees weren’t seen as painful. So we couldn’t position ourselves as an alternative, we had to be immediately recognizable as a check casher, and we had to do check cashing right.”

Self-Help was able to launch the CT Prospera pilot with the financial support of numerous partners, including the Center for Financial Services Innovation, Citi Community Development, and the Silicon Valley Community Foundation. Mona Masri, Senior Vice President of Citi Community Development, explained, “We really saw this as a laboratory for better understanding the needs and behaviors of unbanked and underbanked consumers. It’s an innovative model for meeting these clients’ needs and it’s an opportunity to try out new products and ideas.”

BUILDING THE PILOT BRANCH

Neighborhood Context

The first step in establishing CT Prospera as an effective check cashing outlet was to select an appropriate location that would reach the target market. The Self-Help team focused its search on the largely Latino immigrant neighborhood of East San Jose. As seen in Figure 4, from a demographic standpoint, the census tract in which the branch is located has a relatively higher concentration of individuals who are lower-income, Latino, foreign born, primarily Spanish speaking, and have less educational attainment, as compared more broadly to the City of San Jose and Santa Clara County.

Figure 4 – Demographic Features of the San Jose Branch Location

Demographic Indicator	Tract 5035.07	City San Jose	County Santa Clara
Median Household Income	\$64,450	\$79,405	\$86,850
Unemployment Rate	15.5%	8.7%	7.8%
Highest Educ. Completed: High School Diploma	52.1%	19.4%	16.5%
Highest Educ. Completed: Bachelor's Degree	1.6%	36.6%	45.3%
Hispanic or Latino (of any race)	73.3%	32.6%	26.2%
Foreign born	53.4%	38.6%	37.0%
Spanish Spoken at Home	71.0%	23.9%	19.1%

Source: U.S. Census Bureau, 2006-2010 American Community Survey Estimates

In addition, according to resident surveys that Self-Help CA administered, this particular neighborhood serves as both a gateway community for recent immigrants as well as an established neighborhood for multigenerational families of older immigrants. “What was so compelling about this neighborhood was that it represented our goal of serving every step of a family’s journey. So if you’re a recent immigrant, you’re focused on the day to day transactions and learning to get by. That means check cashing or remittances. Once you’ve been here for a while, you may have had an experience with a bank, or you’re thinking about buying a home—you definitely need a broader set of financial services. But many of these folks are still just using check cashers. We’re able to offer our full product suite within a single community and provide more advanced services for those who are ready for them, but also help people who are just starting out and then gradually move them along the continuum,” said Moreno.

Once the neighborhood was identified, Self-Help CA had to focus on finding a specific site. “Location was crucial. It’s not enough to just offer great services—what’s the point if no one walks through the door?” said Moreno. They ultimately chose a location along Story Road, one of the densest traffic corridors in East San Jose. The branch is intentionally located on the south side of the street to take advantage of the traffic flow exiting from Interstate 280 and Highway 101. “We made sure we’re on the right side of the road, so for people who are exiting the freeways and heading home, they can just pull in and it’s so convenient for them,” explained Moreno. Additionally, the branch is just steps away from a bus stop that serves two of the busiest bus lines in the area. It’s also part of a small shopping center anchored by a 7-Eleven and a liquor store. All of these factors were taken into careful consideration in order to promote ease of access, consistent with the feedback received from the interviews and focus groups.

Physical Design of the Branch

Once the location was established, the next critical aspect was developing the physical design of the pilot branch. Self-Help employed the help of a local team of MBA students from Stanford University to conduct a series of roughly six focus groups with individuals from their target demographic. The primary message from the respondents was that they wanted to feel comfortable when they entered.

“It wasn’t about other people making them feel uncomfortable; it was more about being comfortable in the context in which they were in. People may be incredibly friendly and welcome you, but if you’re self conscious that you don’t mesh with your environment, you’re just going to feel uncomfortable,” explained Moreno. The focus groups provided guidance on every aspect of the physical appearance, from the color scheme to the types of chairs and flooring. “It may seem minor, but we picked a dark patterned fabric for the chairs and linoleum tiles for the floor because we have construction workers walking in with paint on them, or gardeners covered in dirt or grass, and we wanted them to feel comfortable. If you sit in a chair and smudge something on it, it’s ok, you can’t really tell because of the fabric we chose, and that idea came from the focus groups,” said Moreno. Additional details were added to maximize client comfort, such as the children’s area, which sends a signal that people are welcome to bring their families and a large photo mural featuring pictures of working families and inspiring quotes.



However, because the micro branch model seeks to compete first and foremost as a check cashing outlet, it was critical for the branch to retain the feel of a check casher. At just 900 square feet, the branch is compact and easy to navigate. There is a simple walk-up counter, with a straightforward menu of products and clear pricing in Spanish, providing the desired transparency that individuals said was important in the focus groups. The branch originally opted not to have a neon “Check Cashing” sign in the window, but customers would come in hesitantly and have to ask if they could cash checks, which ran counter to the concept of being accessible and inviting. The neon sign turned out to be a necessity for establishing a sense of familiarity for customers, and CT Prospera eventually placed one in the window, which immediately led to an increase in foot traffic.

Branding and Marketing

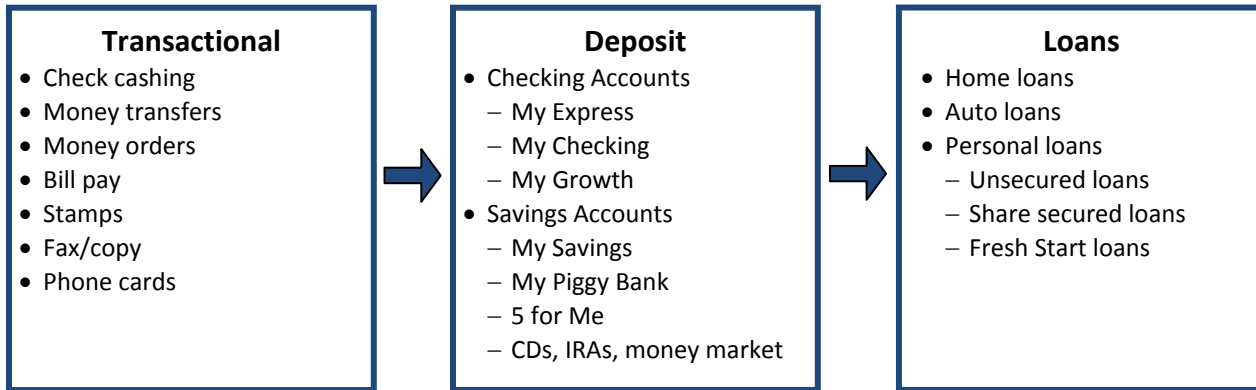
One of the challenges of branding a hybrid check-casher/credit union micro branch is the target market’s deeply entrenched perceptions about check cashers versus traditional financial institutions. “We’ve had to work hard to establish ourselves as a new concept. We’re not a credit union that happens to do this other stuff, and we’re so much more than just a check casher. We really try to be a hybrid and do both, and provide this range of services to meet the needs of our clients,” said Moreno. Early on, tellers would try to encourage first-time check cashing clients to sign up for a credit union account, but clients would immediately back pedal and try to leave, saying they didn’t want a bank account. “We had to re-train staff to tell them not to lead with the fact that we’re a credit union. We want to meet people’s immediate financial service needs and hope that overtime, as we build a relationship, that they’ll want to open an account,” explained Moreno.

As discovered in the focus groups, inertia and indifference were powerful forces that kept people going back to high cost check cashers. Thus, in order to build their client base, CT Prospera staff had to reach deep into the community and actively convince people that they offered something better than the status quo. Staff members are required to perform weekly outreach, such as passing out fliers, speaking to community groups, or setting up a booth at a community event. CT Prospera regularly works with trusted groups in the neighborhood, such as schools, churches, cultural groups, and also regularly hosts a table at the Mexican Consulate in San Jose.

FINANCIAL SERVICES AND PRODUCTS

Most financial institutions offer a range of services, starting with basic demand deposit accounts and then progressing to more sophisticated products, such as mortgages and investment accounts. Financial institutions often “cross-sell” more advanced products to customers in order to further establish themselves as the primary financial services provider for an individual. CT Prospera follows this general model but as Moreno explains, “Our approach isn’t unique, but our starting point is. The product suite was developed specifically with the unbanked/underbanked customer in mind, so we start with check cashing and then help people move into savings and credit products when they’re ready.” The CT Prospera product suite thus falls into three categories: transactional, deposit, and loans (see Figure 6).

Figure 6 – CT Prospera Product Suite



Transactional Products

CT Prospera offers affordable check cashing services that start at one percent of the value of the check (credit union members have access to lower rates) and every fifth check is cashed for free.⁹ A government-issued ID is required and check cashing customers complete a simple registration process. The branch also offers international and domestic money transfers, money orders and bill pay services. In addition, they also offer convenience products for clients such as discounted movie tickets, stamps, fax/copy, and international phone cards.

Deposit Products

Checking Accounts

CT Prospera offers low-cost checking accounts to help transition check cashing clients into demand deposit accounts and become “banked.” The flagship “My Express Account” is a checkless checking account, designed to provide easy access to funds while minimizing the likelihood of account overdrafts. This account has a minimum balance requirement of \$5, and the \$5 monthly service fee is waived if a customer signs up for electronic statements and direct deposit. Account services include an ATM card, debit card (structured to avoid overdrafts by declining transactions if there are insufficient funds), and free online banking. Because check cashing clients are already registered with CT Prospera, the account setup process is fast, minimizing any potential hurdles for the client. In addition to the My Express Account, the branch offers the “My Checking” and “My Growth” accounts which offer check writing services.

⁹ For comparison, California state law sets a fee cap of three percent on government and payroll checks (with an I.D.) and up to 12 percent on personal checks, plus a one-time \$10 setup fee. California Civil Code Section 1789.35.

Savings Accounts

CT Prospera also offers the traditional “My Savings Account,” with a minimum balance requirement of \$5 and a one-time \$5 account set up fee (with no monthly fees). In addition to other traditional savings vehicles, such as CDs, money market and IRA accounts, Self-Help designed two new savings products to meet the specific needs of their target clients.

First, “My Piggy Bank Account” is a standalone account that is designed to help an individual save money throughout the year for a special occasion or large purchase, such as a wedding. An individual establishes a desired savings time frame and goal and can make unlimited deposits to the Piggy Bank, but can only make one withdrawal before the end of the time frame. At the end of the period, the funds are automatically transferred to the individual’s regular savings account where they can be easily accessed.

The second new savings product, “5 for Me,” is specifically targeted at check cashing clients that don’t have accounts. 5 for Me allows customers to automatically transfer a minimum of \$5 from each check they cash into their new savings account, with no monthly fees and a one-time account set up fee of \$5. With a marketing tag line of, “Start Small. Save Big. Have Fun!” clients are encouraged to save for something they would enjoy. “We want to avoid making people feel guilty for not saving and reframe the message to help people think about how saving is doable. You can save a little to take your kids out on the weekend, it can be something fun,” said Moreno.

Loan Products

CT Prospera also offers affordable loan products designed to meet the needs of lower-income borrowers who may have limited or challenged credit. The branch offers affordable and responsible home mortgages and auto loans, as well as small dollar personal loans and credit builder loans. With rates in the range of 10 percent – 17.9 percent, the unsecured personal loans are a much more affordable alternative to payday loans, which can have annual interest rates in the range of 391-521 percent.¹⁰

The branch currently offers two credit builder loans. The Share Secured Loan allows a customer to borrow against their credit union account at a very low rate, giving them an opportunity to build or rebuild their credit history. With the Fresh Start Loan, the branch deposits and holds the loan funds in a customer’s savings account and all monthly loan payment activity is reported to the credit bureaus. Once the loan is paid off, the branch releases the full amount of the loan plus all dividends, and the customer has positively impacted their credit history. “For many working families, building or repairing credit is about securing a new job, qualifying for an apartment to rent or paying less on utility bills. While these are the immediate needs we address up front, our members also reap the long-term benefits of positive credit history that can be used towards asset-building one day,” explained Moreno.

¹⁰ Center for Responsible Lending. “Fast Facts – Payday Loans” Retrieved from <http://www.responsiblelending.org/payday-lending/tools-resources/fast-facts.html>

OPERATIONS

Part of the challenge of offering a new hybrid service model is the fact that check cashers and credit unions have different approaches to operations. The pilot branch has enabled CT Prospera to test different operational aspects and make adjustments as necessary.

Staffing

One of the critical lessons learned was in regard to staffing. The CT Prospera pilot originally employed all full time staff, which is typical for credit unions. “We’re open seven days a week, most days until 7:00 P.M. That doesn’t work with the rigidity that comes with all full time staff. We’ve learned it’s better to have one full time lead teller, one full time branch manager, and then the remaining staff are all part time. It gives us greater flexibility to cover operations and extended hours,” explained Moreno. CT Prospera takes particular care to hire individuals who are aligned with the mission and have some connection to the people being served. “The interviews are frank and detailed. It’s easily apparent if someone believes in the mission and understands the challenges of the immigrant experience. It’s important for the staff to understand the social norms and behaviors of unbanked individuals and have no judgments. We hire on mission alignment and train everything else,” said Moreno. One employee stated, “I enjoy working for a company that values all members regardless of financial status.” Another employee echoed this sentiment, saying, “I like the mission of Prospera helping the low-income, Hispanic community—encouraging them to save instead of becoming in debt.”

Operating Hours

CT Prospera originally set its operating hours as 10 A.M. to 7 P.M. Monday through Saturday, and 12 P.M. to 5 P.M. on Sunday. These extended hours were designed to meet the desire for convenience that was so often cited in the focus groups and surveys. However, once operations began, it became evident that clients had specific needs. “What we started hearing was, ‘I want to get all my errands done in the morning and then spend the rest of the day with my family. Could you open earlier on Saturdays?’ We heard it often enough we knew we had to make a change,” Moreno said. The branch changed the hours to 9 A.M. to 7 P.M. Monday through Friday, 9 A.M. to 1 P.M. on Saturday, and closed on Sundays. To date, customer feedback has been positive.

Systems and Policies

The pilot branch also had to put specific systems and policies in place to handle the large volume of check cashing transactions, in addition to their regular account services. The branch uses a cash recycler, which automatically counts, stores, and dispenses any cash deposits or withdrawals, effectively taking the cash handling out of the employees’ hands. This serves multiple purposes, including reducing transaction time, increasing accuracy, and providing an additional level of security by preventing excessive amounts of cash from accumulating. CT Prospera also uses a check-decisioning software platform, which is specifically designed to enable successful “cash banking” relationships with underbanked consumers. The platform helps manage the risks associated with check cashing, such as fraud and the availability of funds.

In addition, because CT Prospera aims to serve unbanked and underbanked consumers, it had to enact a more inclusive ChexSystems¹¹ policy than most mainstream financial institutions. “We begin with the assumption that our clients might have tripped up in the past with their bank accounts. Maybe they got upset and moved to check cashers, walked away from unpaid balances and are now oftentimes unable to access a secure, affordable bank account. Those are the people we want to serve,” said Moreno. The current credit union policy allows an individual to have up to two unpaid balances, for a total not to exceed \$500 on their ChexSystems record, and still have access to a checking and savings account. If the unpaid balances exceed \$500, an individual can still open a savings account (the exception in both cases is if there is a charge of suspected fraud). “There is a real fear and anxiety in many mainstream financial institutions towards people who are on ChexSystems. But we did a strict analysis of our risk mitigation needs and found a way to serve these people while appropriately protecting CT Prospera,” stated Moreno. Other institutions offer “second chance” accounts for individuals with ChexSystems history, but many of these accounts are suboptimal and come with higher fees and fewer options.¹²

Financial Education

A key component to the CT Prospera impact model is to provide financial education through its delivery of service. CT Prospera originally sought to deliver “in-line” financial education, where tellers would deliver mini personal finance lessons with each transaction. In the first year, it became clear that this expectation was not realistic, given that the tellers had such a short amount of time to complete all the other necessary aspects of a transaction. “People want to come in and get their business done fast. You can’t teach a lesson in that time, and it was asking too much of the tellers to expect them to be financial educators on top of everything else.” The most recent iteration of in-line financial education builds behavior change cues into the product design and marketing campaign. The 5-for-Me account was deliberately structured to “nudge” check-cashing clients toward asset-building accounts. “Things like 5 for Me are so exciting. We’re not just telling someone they should save, we’re providing the mechanism to help them do it,” said Moreno.

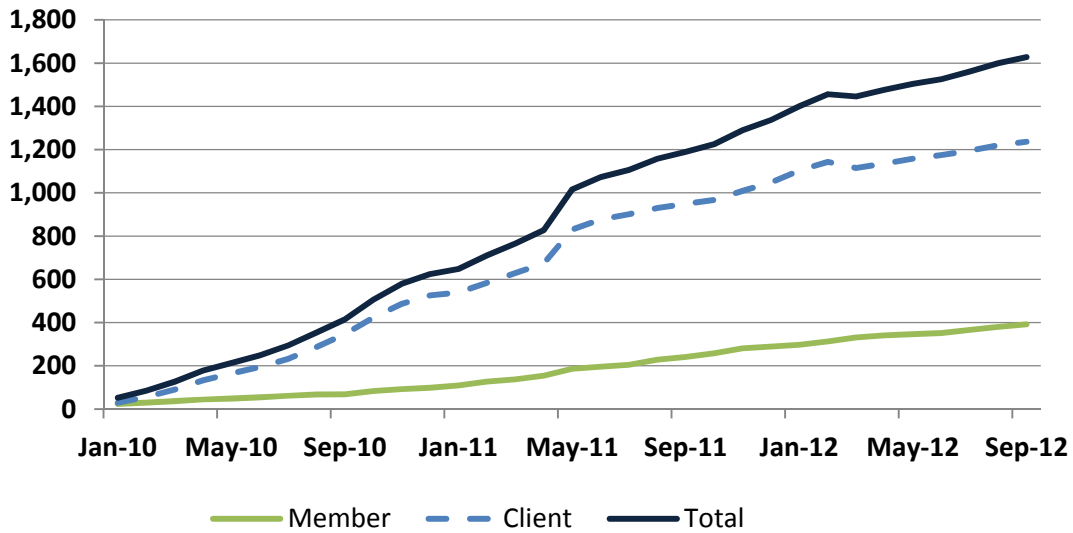
ACCOUNT DATA AND RESULTS

Data from the pilot branch’s first 21 months of operation (from January 2010 through September 2012) show slow but steady growth. As seen in Figure 7 below, the total number of members and clients grew from zero to 1,628 over that time period (“clients” are those that exclusively utilize transactional products while “members” are those who have opened deposit accounts and joined the credit union). Of this total, 392 are members (24 percent) while 1,236 (76 percent) are clients. Moreno points out that, “Growth is slower than initially projected. We were a bit too optimistic with our projections and didn’t take into account the difficulty for a de novo, hybrid concept to stand out in a competitive financial services market.”

¹¹ ChexSystems is a reporting agency that provides data on an individual’s deposit account behavior at a financial institution. For more information, see <https://www.consumerdebit.com>.

¹² Ellis, Blake. “Denied a bank account? You have options” August 20, 2012. CNN Money. Retrieved from <http://money.cnn.com/2012/08/16/pf/second-chance-checking/index.html> on October 30, 2012.

Figure 7 - Member and Client Growth, Jan. 2010 - Sept. 2012



Given that the majority of individuals utilizing the pilot branch are clients, rather than account holding members, transactional products and services drove much of the branch’s overall activity. As shown in Figure 8, there were a total of 14,569 transactions from January 2010 through September 2012. Check cashing made up the largest share of branch activity, accounting for 56.3 percent of all transactions during the period, followed by bill pay and money order purchase at 20.5 percent and 18.2 percent, respectively. Remittances accounted for just five percent of total transactions during the period.

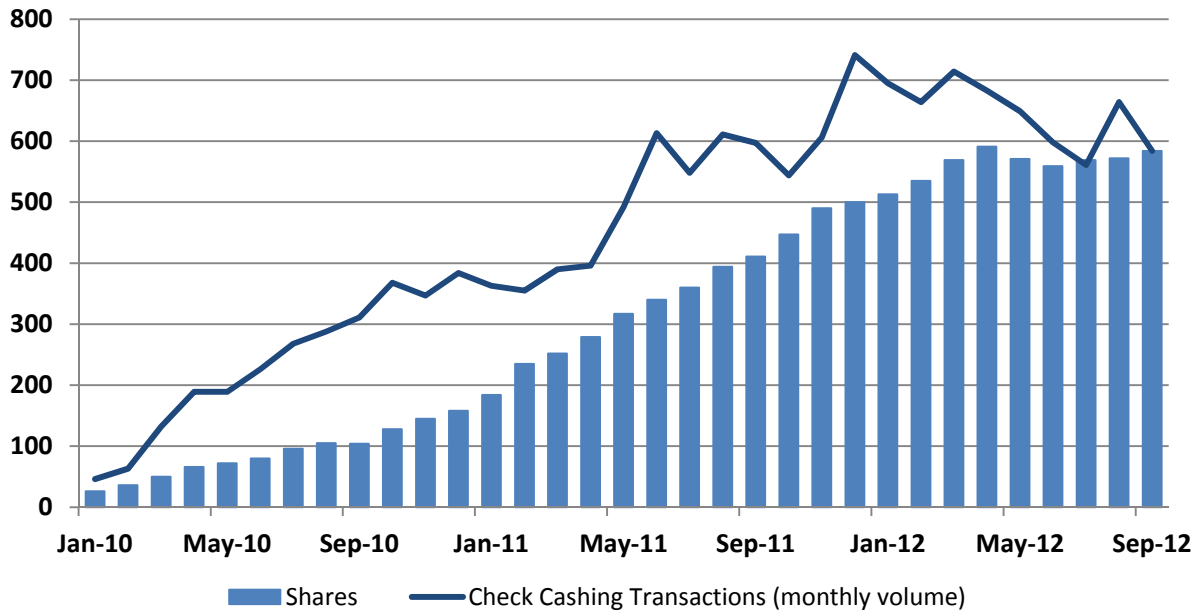
Figure 8 – Transactions by Type, Jan. 2010 – Sept. 2012

Type of Product or Service	Transactions	Percent of Total
Check Cashing	8,196	56.3%
Bill Pay	2,991	20.5%
Money Order Purchase	2,654	18.2%
Remittances	728	5.0%
Total	14,569	100%

While client driven transactions accounted for much of the pilot’s activity during the first 21 months of operation, credit union share¹³ growth increased steadily along with the monthly volume of check cashing, as shown in Figure 9. By September 2012, there were 584 credit union shares (or “accounts”) and an average of 603 check cashing transactions per month during the third quarter of 2012.

¹³ Shares represent deposit accounts held at the credit union. A single member may have multiple accounts, such as a checking and saving account, and thus may have multiple shares.

Figure 9 - Share Growth and Check Cashing Volume, Jan. 2010 - Sept. 2012



Although high quality, affordable transactional products and services are a core component of the Prospera model, the ultimate goal is to move unbanked and underbanked individuals into account ownership and asset development. Figure 10 below shows the breakdown of total shares by account type as of September 2012. There were 331 regular savings accounts and 150 checking accounts, which made up 61.2 percent and 27.7 percent of total accounts, respectively. The specialized savings accounts (My Piggy Bank and 5 for Me) were introduced later in 2012 and thus had lower counts than the other types of accounts that were part of the product suite from the beginning of the pilot.

Figure 10 – Accounts by Type, September 2012

Description	Count	Percent of Total
Regular Savings	331	61.2%
Checking	150	27.7%
My Piggy Bank Savings	39	7.2%
5 for Me Savings*	20	3.7%
Money Market	1	0.2%
Total	541	100%

As of September 2012, members of the Prospera pilot branch had accumulated a total of \$39,622 in deposits, with an average savings balance of \$74.52 per member (reflecting non-zero balances). Accounts ranged from a low of \$1 to a high of \$995.08. Regular savings accounts had average balances of \$61.75, while the Piggy Bank and 5 for Me accounts had average balances of \$82.51 and \$48.90, respectively.

ACQUISITION AND FUTURE GROWTH

Having tested the pilot micro branch model in San Jose for a few years, Self-Help developed an opportunity in late 2011 to acquire a small chain of check cashers. After careful consideration and planning, Self-Help formally acquired five check cashing stores on July 1, 2012 in the San Gabriel Valley of Los Angeles. The acquisition allows Self-Help to absorb an active client base estimated at 15,000 unbanked and underbanked individuals. “What’s most exciting is the opportunity to acquire these clients who are active check cashing users, who aren’t necessarily out there looking for better alternatives,” explained Moreno. These clients will be able to cash their checks with the same level of convenience and comfort at a lower cost, while also gaining access to depository and lending products designed for their needs. The new branches will offer the same product suite developed in the pilot branch, ranging from check cashing and savings accounts to affordable mortgages for low-income families. “The intervention is so direct; we’re serving families who by definition are unbanked or underbanked. That’s our mission and we’ll be able to do it right off the bat with the acquisition,” Moreno said.

The San Jose branch and the five Los Angeles branches became part of the same Prospera division and full operational integration took place in January 2013. The new Southern California CT Prospera branches will undergo gradual physical renovations to replicate the look of the San Jose branch, with an



emphasis on creating an inviting and comfortable space. “We wanted to redesign the stores to be warm and welcoming, but we didn’t want to change it so much that it would be unrecognizable to a client. They still need to have the feel of that check casher,” said Moreno. Self-Help also decided to hire and re-train all of the existing employees from the acquired stores in an effort to provide continuity and maintain the relationships and trust that had already been established with clients. “It would have been pointless to acquire these check cashers and then completely redesign them and hire all new credit union staff because then we’d basically just be opening credit union branches. That’s not a bad thing, but it’s not what we set out to do,” she explained.

Self-Help sees the acquisition as a potential first step in a longer term strategy for growing the Prospera model. However, Moreno is quick to point out that such a strategy requires significant due diligence and planning. “Opening a *de novo* hybrid model in a new market is incredibly difficult; it’s doable, but it takes patience and effort. We take the integration process very seriously and there are a lot of regulatory requirements involved. This strategy is not for everybody. But, it can be very impactful when it’s the right opportunity,” she said. “We want to be thoughtful about the opportunities that we consider and always keep the long term vision for Prospera and for our target market in mind.”

Key Lessons from the CT Prospera Pilot Project

- *Early and ongoing market research is critical*
The early focus groups, surveys and interviews conducted as part of the market research process directly informed many aspects of the CT Prospera pilot, such as the branch design and product mix. It is critical to understand the needs and preferences of the target market in order to design a financial service model that can effectively meet these needs. However, this process should not be limited to the predevelopment phase; client preferences may evolve, or there may be important client needs that were not identified during the initial needs assessment.
- *Products and services should meet the immediate needs of unbanked and underbanked clients*
Unbanked and underbanked clients have specific, immediate financial service needs that are often unmet by mainstream financial institutions, such as affordable check cashing, bill pay services, or low-balance savings accounts. These “transitional” products and services are necessary to help individuals progress along the financial services continuum and successfully operate in the financial mainstream.
- *Be open to experimentation and a process of adaptation*
As a pilot project, CT Prospera had the flexibility to test new products and operational approaches in a relatively small, controlled setting. For example, the experimental 5 for Me savings account was popular with clients when it was first introduced, but interest slowly tapered off. The branch quickly learned it needed to revive its marketing to continue to draw users. Moreno points out that “Fresh, fun marketing campaigns have a life of 6-8 weeks, and then you iterate.” This iterative process applies to more than just marketing however; the branch has had to adopt an ongoing process of learning and adaptation in order to meet the needs of its target market.
- *Maintain patient investment toward economic viability*
Self-Help’s goal with the Prospera division is to prove that the hybrid model can be an economically viable strategy for any financial institution committed to serving traditionally underserved families and communities. Like most start-up operations, however, it will take time for Prospera to develop the scale necessary for profitability. The recent acquisition is a meaningful step in this direction—Self-Help believes its cluster of five branches, starting with a significant base of transaction customers, can build the necessary loan volume and other revenue required to reach profitability in three to four years. While Self-Help has demonstrated that there is both need and room in the marketplace for this hybrid approach, they have not yet proven its economic viability.

Looking ahead

The lessons learned from the CT Prospera pilot will directly inform the development of the newly acquired branches in the Los Angeles area, but the micro branch model also has implications for the broader financial services field. Primarily, it demonstrates that there is a need for transitional financial services that help unbanked and underbanked consumers progress into the financial mainstream at their own pace. Many consumers are not quite ready to jump into checking or savings accounts but need the opportunity to develop a relationship with a responsible financial institution over time. As these consumers become familiarized with basic mainstream financial services, they increase their financial capability and capacity for asset development. The provision of high quality, affordable financial services thus remains a key component of establishing and maintaining household financial stability.

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