



HARVARD Kennedy School

MOSSAVAR-RAHMANI CENTER
for Business and Government **30** YEARS

Incubating Inner-City Branches for Acquisition by Financial Institutions

Gatien Bon

June 2014

M-RCBG Associate Working Paper Series | No. 32

The views expressed in the M-RCBG Fellows and Graduate Student Research Paper Series are those of the author(s) and do not necessarily reflect those of the Mossavar-Rahmani Center for Business & Government or of Harvard University. The papers in this series have not undergone formal review and approval; they are presented to elicit feedback and to encourage debate on important public policy challenges. Copyright belongs to the author(s). Papers may be downloaded for personal use only.



Incubating Inner-City Branches for Acquisition by Financial Institutions

Gatien Bon

Master in Public Policy 2014
Harvard Kennedy School
April 2014

Academic Advisor:

Jim Segel
Senior Fellow, Harvard Kennedy School

Seminar Leader:

Phil Hanser
Senior Lecturer, Harvard Kennedy School

Submitted to:

Elwood Hopkins
Managing Director, Emerging Markets Inc.

Gatien Bon's PAE "Incubating Inner-City Branches for Acquisition by Financial Institutions" focuses on a serious inner city problem – the lack of financial services for low-and middle-income families – and discusses potential solutions. The large financial institutions that dominate the banking sector have long-demonstrated their ill-suitedness in dealing with inner city low-and middle-income families. As a result, the rate at which this particular urban population avails themselves of those services is significantly lower than the population as a whole. Gatien's PAE assesses various options that realistically can address this issue. In a sector as highly regulated as the banking industry, this requires understanding not only the strategic aspects, but also the regulatory. In addition, Gatien also discusses the more operational issues that will arise in establishing bank services and whose failure to properly address is likely the root cause of the large banking institutions' failures in serving this segment. Gatien's analyses are insightful and substantive, thus providing an excellent perspective on this problem's solutions.

Phil Hanser, Senior Associate, Mossavar-Rahmani Center for Business & Government

Gatien to undertake a research project of enormous significance to our work in the field. It is increasingly evident that the lack of banks in low-income area is undermining the financial stability of this country's poorest households. But despite the Community Reinvestment Act, which was enacted in 1978 to require banks to serve low-income areas, banks continue to underserve the most vulnerable populations. At Emerging Markets, Inc., a social enterprise focused on helping banks to open branches in poor neighborhoods, we have had some success encouraging banks to open branches in such neighborhoods. But at the end of the day, they continue to struggle with the financial risk they assume when doing so.

Gatien's project, entitled BranchLab, represents an exploration of a groundbreaking and innovative idea: we can reduce the risk faced by banks by opening bank branches in low-income neighborhoods, operating them until they are profitable, and then selling them to major financial institutions. This will give us the freedom to innovate around products, services, staffing, and physical format; build a resident IPO so that local residents can maintain an ownership stake and profit from the sale; and generate profits that can be reinvested in the next set of banks.

As far-fetched as this idea might seem, Gatiens's research into the regulatory, legal, and financial issues reveal that there are indeed viable pathways through which this idea can be executed. His dogged determination to explore every aspect of the concept, interview a multitude of individuals with different skill sets, and formulate and reformulate the idea in his mind were crucial to helping the idea reach this stage. Current and retired bank CEO's who advise us on our work applaud the idea as one of the most intriguing and promising innovations in the field today. I would submit that Gatien's methodology and steadfastness also serve as a model for students interested in taking on equally challenging opportunities. He has made a significant contribution to our work and to the field at large.

Elwood Hopkins, Managing Director, Emerging Markets Inc.

This paper on banking in the inner-city neighborhoods has allowed to reflect on the past experiences of banks trying to build local branches to better serve the community. Through this analysis, a complete description of causes of success has been made. Moreover, the regulatory analysis has highlighted the major pitfalls to avoid when trying to create such a structure again. With the backing of a major bank, there is no reason to believe that what has worked for Bank Boston decades ago would not work again. this idea is therefore exploring in order to find new ways to bring underprivileged communities to banking.

Jim Segel, Senior Fellow, Harvard Kennedy School

Executive Summary

Given the current aversion for risks by banks, opening new branches in Low and Middle Income (LMI) neighborhood does not constitute a priority. Despite the shrinking number of community banks and of local banks, this reports relies on the premise that these banks are more adequate at bringing customers with banking services to open a bank account. However, regulatory hurdles impede the way to this outcome.

This report analyzes options to enable the creation of an ideal institution to meet this goal. The project demonstrates that LMI neighborhoods can be viable places to invest in either for profitability or community development purposes. Inhabitants of these areas are willing to see megabanks join the neighborhood.

Starting by laying the details of the regulatory environment in the banking industry and analyzing the changes in the CRA requirements after the 2007 financial crisis, this report shall conclude that despite the decline in interest in CRA projects, presenting the creation of a new financial entity as a business opportunity can be a viable project.

This report then goes through the different strategies possible to enter the market and to create the entity. Creating a credit Union seems the simplest option but raises concerns as to the creation of a customer base large enough to sustain the project. A partnership with an existing institution as Operation HOPE chose to build could be viable but might entail issues when scaling up.

We shall conclude that recapitalizing an existing bank or buying a low performing bank are the best strategies. Creating momentum to shift its culture towards more LMI oriented policies would allow creating a new dynamic. Local hires and specific expertise should be able to make the bank a profitable entity.

Assessing the viability of such a project requires having a close perspective on the previous attempts, failed or succeeded of similar projects. By analyzing the transformation of Nix Checkcashing into a credit union, we shall discover the difficulty of bringing people to the financial mainstream. However, these institutions have been able to create sustaining businesses.

Citibank's withdrawal from Massachusetts shall remind us the difficulty of penetrating a market *de novo* and the *Compte Nickel* example underlines the necessity to ground the project on existing networks. Operation HOPE's change of business model highlights the difficulty of relying on CRA subsidies and the necessity to demonstrate the business opportunity. CheckSpring Bank and First Community Bank, two successful examples, display that such a project can in fact be viable.

The final step of the project discusses the potential exit strategies. The project supported by Emerging Markets goes through the sale of the entity to a megabank to bring large scale banking services to the area. This solution might not be optimal given the capacity megabanks have to remove the specificities of local banks. No major regulatory hurdle should be found on this step, after the long process of raising millions of dollars of capital and making the bank profitable over a five year period.

Megabanks symbolize the success of an area, they shall remain primary targets for the sale of the local bank. This study has found that regulatory hurdles, while significant, can be overcome, thus permitting the success of the entire process and assisting LMI areas to rise out of their poverty. The several examples of success stories demonstrate the potential for visionary investors to take over a niche position in the market and to take part in the development of the LMI neighborhoods.

Table of Contents

EXECUTIVE SUMMARY	3
INTRODUCTION & BACKGROUND	6
METHODOLOGY	7
FINDINGS AND ANALYTICAL RESEARCH	8
CHAPTER 1. A HISTORICAL PERSPECTIVE ON BANKING IN THE US	8
1.1 DEMOGRAPHY OF BANKS: A SHRINKING NUMBER OF LOCAL AND COMMUNITY BANKS	8
1.2 MERGERS AND BANK CONCENTRATION	9
1.3 CRA AND THE CONSEQUENCES	10
1.4 DEMAND FOR BANKING IN THE LMI NEIGHBORHOODS	12
1.5 <i>A STRONG PUSH TOWARDS LOCAL BANKS AND COMMUNITY REINVESTMENT</i>	13
CHAPTER 2. REGULATORY ISSUES LINKED TO THE CREATION OF A NEW FINANCIAL INSTITUTION	15
2.1 ESTABLISHING A NEW BANK	16
2.2 CREATING A NEW CREDIT UNION	20
2.3 PARTNERING WITH AN EXISTING FINANCIAL INSTITUTION	20
2.4 RECAPITALIZING AN EXISTING BANK	20
2.5 STARTING A NEW FINANCIAL CORPORATION	22
CHAPTER 3. CASE STUDIES: EXISTING EXAMPLES OF SIMILAR INITIATIVES	24
3.1 NIX CHECK CASHING IN CALIFORNIA PURCHASED BY KINECTA CREDIT UNION	24
3.2 CITIBANK IN MASSACHUSETTS DECIDES TO CLOSE DOWN BRANCHES IN MA	25
3.3 OPERATION HOPE OPENING FINANCIAL CENTERS WITH BASIC FINANCIAL PRODUCTS	27
3.4 CHECKSPRING BANK TRYING TO DEVELOP A LOW FEE BANKING STRUCTURE	28
3.5 FIRST COMMUNITY BANK, MASSACHUSETTS	30
3.6 A FRENCH INITIATIVE TO MAKE BANKING EASIER: COMPTE NICKEL (SPICK & SPAN ACCOUNT)	33
CHAPTER 4. ISSUES WITH SCALING UP AND FINDING AN EXIT STRATEGY	36
4.1 ECONOMICS OF SCALE IN BANKING: AN IDEAL SIZE?	36
4.2 REACHING A VIABLE ECONOMIC MODEL	37
4.3 ANTITRUST ISSUES AND LIMITATIONS.	37
4.4 VARYING REGULATORY CONSTRAINTS ON THE EXIT STRATEGY	38
CONCLUSIONS & RECOMMENDATIONS	42
KEY RECOMMENDATIONS	43
APPENDIX	44
LIST OF INTERVIEWS CONDUCTED	44
LIST OF REQUIRED DOCUMENTS TO FILE A CHARTER APPLICATION	44
BIBLIOGRAPHY	46

3911



CEDRIC B's
BARBER & BEAUTY
STYLING SHOP

WILLIE BROWN'S
HAIR AFFAIR

ENTRANCE IN REAR

McKEE
MANAGEMENT



URBAN LEAGUE
PROJECT-4-VICTORY

Introduction & Background

Low and Middle Income (LMI) areas are infamously known for their scarce number of banks. Even more strikingly, check-cashers and payday lenders get formal approval for their business; they seem more numerous than regular banks – because of the geographic repartition. With almost 8 billion dollars paid in fees to non-traditional banks, these areas contribute to the fortune of pay-day lenders and check cashers.

Despite the Community Reinvestment Act (CRA, 1977) requirements designed to bring banks to enter those areas, entering a new market constitutes a risky move. The incentives to enter affluent neighborhoods are much higher than taking on the challenge to turn around a neighborhood. Making this choice to solve the banking availability issue can help play a role in the process of solving the puzzle of getting out of poverty.

Not only are banks not present in these areas, but also their products are often inadequate leading customers not to be willing to open a bank account and branches to operate at a loss. Might it be possible to establish small banks in priority need areas; operate them for the three-to-five year period required to achieve a profitable balance sheet; and then sell them to major financial institutions?

Banking in LMI areas would require a different business model as well as Emerging Market's expertise to create successful branches. The risk-taking capacity at financial institutions today is at a low point due both to willingness and to capacity of banks. Would these institutions be interested in buying out existing branches, operating in LMI areas, where the risk has already been assumed by others?

Financial literacy has long been seen as the way to raise communities. However, financial literacy alone does not suffice to change an entire neighborhood. One should also take into account the lack of diversified banking offerings in the LMI

neighborhood. In a culture where trust in the banking system remains low (Pew Studies), having only one bank present and no ability to choose does not help to make banks fight to get your account. Adding innovative branches in these areas would help the neighborhoods. Acting by building new branches rather than by shifting the business model of the existing branches brings a better value proposition.

In order to be able to build a strategy to incubate inner-city bank branches to be able to then sell them to a large financial institution, several points need to be addressed. Specifically, such a process would face the following issues:

- Regulatory
- Financial
- Operational
- Legal

The current report will focus on regulatory issues although the other issues shall be touched upon in order to get a deeper understanding of the regulatory issues that the financial institution newly created by Emerging Markets must tackle. Once the strategy is decided upon, a series of logistical and operational questions will be raised. In particular, they shall concern the creation of a charter for a bank, and the question of the necessary hires to make to be able to fulfill all requirements. The question of means required to raise the necessary capital required and hire the adequate staff to be operational to be able to serve the population will be not addressed.

The first part of this report will use historical data available to see if such a project can be viable. The second chapter will examine how to create a new structure and what the regulatory hurdles are. The third chapter shall examine what the best practices are drawing from six case studies. A fourth part shall examine the exit strategy. If there is a desire to sell the structure to a megabank, would it be feasible?

Methodology

Interviews with practitioners

Conducting prospective research on the possibility of success of such a new enterprise entails a very high level of uncertainty. In order to get an on the ground feeling of what the structure of the new bank should look like, my primary research material was comprised of twenty-seven interviews with practitioners. Each of these discussions lasted from 30 minutes to an hour. During these discussions, regulatory and operational issues were the two main subjects at stake. In order to make the most out of these privileged moments, most interviewees also gave me their general feeling about the project and the potential pitfalls.

Theoretical research on the banking market and valuation

The ultimate goal being to bring major financial institutions to a neighborhood, the final place of investigation is the literature of bank sales and valuation. On top of this valuation issue and the different regulatory concerns, my research shall investigate the appetite for executives on the retail side of banks to buy such a small entity rather than building their own *de novo* branches. The data from the FDIC and the OCC shall also be used.

Specific case studies around the evolution of banking

Keeping this theoretical research practical required the choice and analysis of five specific case studies, all of which focus on a specific aspect of the project. They allowed enlightening the theoretical research with applied best practices and ways to avoid traps and common errors.

Theoretical research and regulations on the American banking system

Using the public data available on banking informed these interviews. The specific regulations around opening a bank, a credit union, a check cashing store or a payday lending operation constituted part of the material. Moreover, the Fed's data on the evolution of the banking sector constituted a major resource to be able to map the historic changes that happened in the past years.

Findings and analytical research

Chapter 1. A historical perspective on banking in the US

1.1 Demography of banks: a shrinking number of local and community banks

97% of the banks in the United States have less than 1 billion dollars in assets. These banks account for only 33% of total banking assets. This relatively small number of assets owned has caused many to predict the disappearance of smaller banks in the near future. However, this reduction has not happened that drastically yet, in part because they are better able to serve the small businesses requiring small loans. This better service constitutes the very heart of community banking and of small banking corporations where the teller knows his customer.

Exhibit 1. Number of banks by asset size (adjusted for inflation, 1990\$)

Source: FDIC data

Size	1960	1975	1990
Under \$100 million	12031 (91%)	11809 (82%)	9247 (75%)
\$100 million – 1 billion	1040 (8%)	2327 (16%)	2710 (22%)
\$1 billion – 10 billion	136 (1%)	230 (2%)	326 (3%)
Over \$10 billion	10 (0.1%)	17 (0.1%)	47 (0.4%)

Exhibit 2. Profitability of US banks in 1990 (in percent)

Source: FDIC data

	Under \$100 million	\$100 million – 1 billion	\$1 billion – 10 billion	Over \$10 billion
Return on assets	N/A	0.72	0.82	0.54
Return on equity	N/A	8.2	10.9	10

Exhibit 3. Commercial Banks in the United States in 1999

Source: Spong, 2000

	Number of banks	Percent of all banks	Total deposits in billion \$	Percent of total deposits
National banks	2368	27.6	1776.2	55.9
State banks	6209	72.4	1398.5	44.1
State member banks	1010	11.8	636.7	20.1
State non member banks	5199	60.6	761.8	24
All US banks	8577	100	3174.7	100

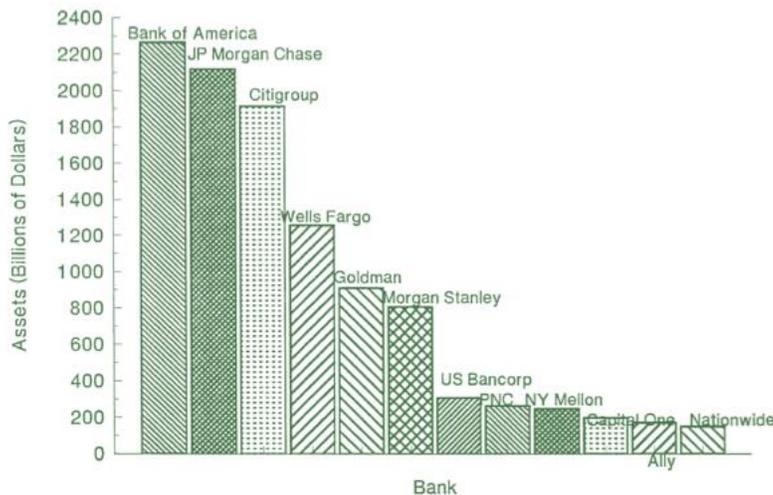


Exhibit 4. Assets of top 12 US banks in 2010
Source: FDIC

1.2 Mergers and bank concentration

After a peak at 14,496 banks in 1884, the number of commercial banks has constantly decreased to 7,789

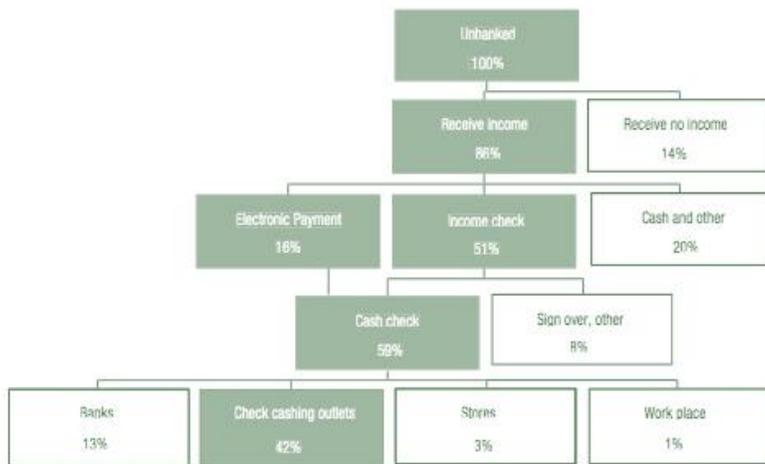


Exhibit 5. Income conversion by the unbanked
Source: Survey of financial habits, Dunham, 2010

novus branches. The figures in exhibit 6, coming from Emerging Markets' calculations and the FDIC data, confirm this hypothesis. Therefore, the CRA requirements of banks are not met by building branches in chosen areas but are met as part of a larger acquisition process. This tendency could create interest for bank executives to buy high performing *de novo* branches after the success of the model has been proven. This tends to give a strong justification to the way the project is envisaged by Emerging Markets.

In fact, this proximity with their customers has allowed small banks to perform slightly better than their largest counterparts in term of return on assets and on equity, these statistics might be biased by staff bonuses. These statistics allow some authors to suggest building a network of small banks under a common holding umbrella in order to raise a large amount of capital while still keeping proximity between the customers and the bankers.

Overall, the shrinking number of community banks and the increasing concentration in assets has the largest negative impact on LMI communities. Indeed, lending with a bad credit score is more difficult for megabanks given the rigidity of their procedures.

commercial banks in 2003. This has allowed the average deposit to increase significantly: the amount of assets per bank increased over the same period from 307 million to 979 million dollars (in 2003 dollars). Even more importantly for our project, this concentration has allowed to increase the number of branches per bank. The percentage of banks having more than one branch increased from around 50% in 1984 to 71%. However, the strong ties to the communities of banks and the link between the banker and the people he offered loans to was lost.

The FDIC data on bank mergers suggests that megabank branches in LMI neighborhoods are legacies of past acquisitions rather than *de*

Acquired Branches in LMI Census Tracts 1980-2013					Total Acquired Branches 1980-2013		
Total LMI Acquired Branches: 9,265					Total Acquired Branches: 38,820		
Rank	Bank	LMI Branches	Pct. of all LMI Acquired Branches	Pct. Of Big 4 Total Acquired Branches	Rank	Bank	Branches
1	Wells Fargo	1,520	16%	29%	1	Wells Fargo	5,290
2	Bank of America	1,195	13%	31%	2	Chase	4,030
3	Chase	1,164	13%	29%	3	Bank of America	3,822
4	Citibank	175	2%	27%	4	Citibank	651
Total		4,054	44%	29%	Total		13,793

Established Branches in LMI Census Tracts 1980-2013					Total Established Branches 1980-2013		
Total LMI Established Branches: 5,830					Total Established Branches: 28,728		
Rank	Bank	LMI Branches	Pct. of all LMI Established Branches	Pct. Of Big 4 Total Established Branches	Rank	Bank	Branches
1	Chase	224	3.8%	15%	1	Chase	1,455
2	Wells Fargo	197	3.3%	23%	2	Bank of America	914
3	Bank of America	181	3.1%	20%	3	Wells Fargo	853
4	Citibank	43	0.1%	19%	4	Citibank	224
Total		645	11%	19%	Total		3,446

Exhibit 6. Preliminary analysis of established and acquired branches
Source: Emerging markets, FDIC Summary of deposits 2013 data

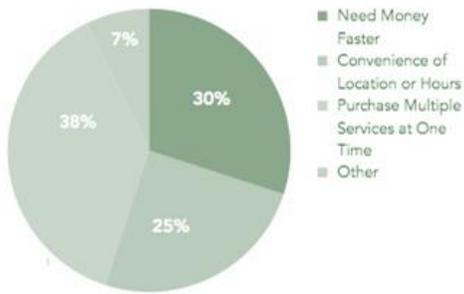
1.3 CRA and the consequences

Components	Lending	Investment	Service
Test ratings			
Outstanding	12	6	6
High satisfactory	9	4	4
Low satisfactory	6	3	3
Needs to improve	3	1	1
Non compliant	0	0	0
20+: outstanding	11+ Satisfactory	5+ Needs to improve	0 + substantial non compliance

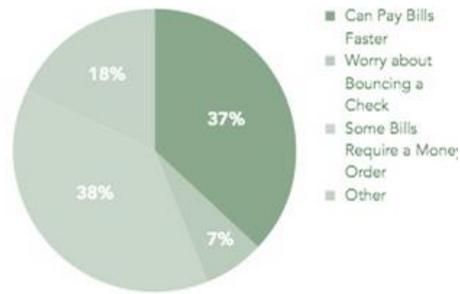
Exhibit 7. Components of the CRA rating
Source: OCC data

The CRA constitutes the Title 12 of the United States Code, Sections 2901 to 2912 and was initially passed in 1977. At the time, the objectives aimed for by this text were clear even if the means by which community needs should be served were not explicitly mentioned. The general objective was to avoid redlining and to encourage regulated financial institutions to help meet the credit needs of the local communities in which they are chartered, consistent with safe and sound operation

Why do you use a check casher?



Why do you pay bills at a check casher?



Which financial services provider is better on the following?

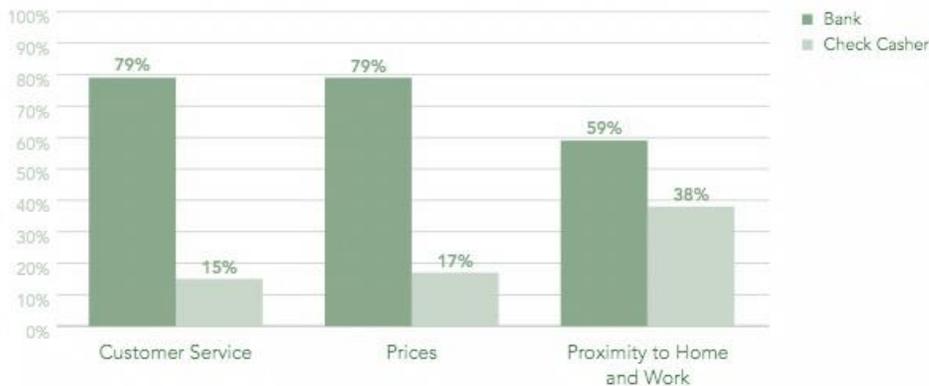


Exhibit 8. Comparison of financial service providers
Source: Pew study, Payday lending, 2010

maintaining branch offices; and (iv) avoiding discriminatory credit policies. In 1989, these ratings became public and were substantially amended in 1995. Since then, three specific performance tests are done: (i) a lending test; (ii) an investment test; and (iii) a service test. The lending test measures the number, volume, and percent of home and small business loans made to LMI borrowers and neighborhoods. The investment test considers the number of investments (equity shares or grants to the community), their creativity and their responsiveness to the needs of LMI communities. In addition, lenders are rated on the extent and innovation of other community development services within their service areas and the surrounding regions and/or states.

The goal of providing fair access to financial services and to expand credit to LMI neighborhoods - set in the 1977 standards and confirmed in the later versions of the CRA - has been reached according to academic research. However, many advocates plead for modernizing the targets. In particular, expanding the geographic reach of the CRA to analyze where loans are made through non-branch entities rather than focusing only on the branches' physical location is considered key. Grade inflation is also threatening the system and could be fought by asking federal banking agencies to publish preliminary CRA exams for review and public comment.

Regulatory agencies are the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC). They are in charge of establishing assessment factors to reflect the performance of an institution in credit over the following criteria: (i) marketing of credit; (ii) participating in community development; (iii)

maintaining branch offices; and (iv) avoiding discriminatory credit policies. In 1989, these ratings became public and were substantially amended in 1995. Since then, three specific performance tests are done: (i) a lending test; (ii) an investment test; and (iii) a service test. The lending test measures the number, volume, and percent of home and small business loans made to LMI borrowers and neighborhoods. The investment test considers the number of investments (equity shares or grants to the community), their creativity and their responsiveness to the needs of LMI communities. In addition, lenders are rated on the extent and innovation of other community development services within their service areas and the surrounding regions and/or states.

Households Without Checking Accounts, 1989-2004

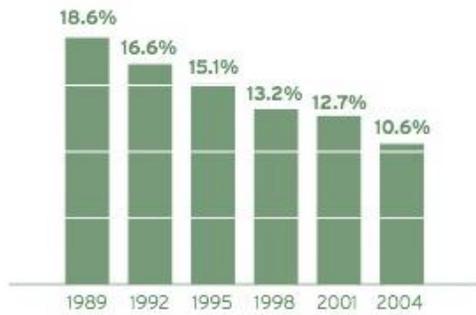
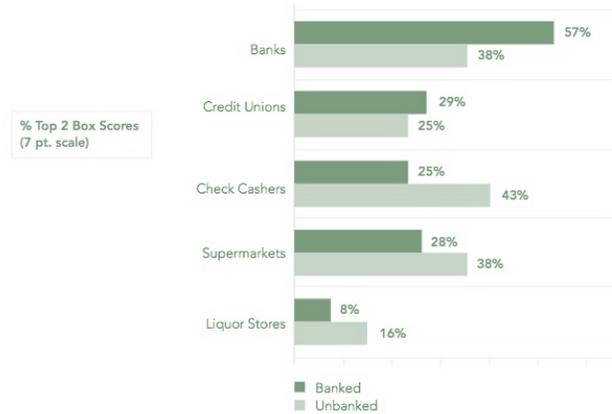


Exhibit 9. Use of financial services providers
 Source: Pew study, Payday lending, 2010

TRUSTWORTHINESS OF FINANCIAL INSTITUTIONS



The Non-Bank Check-Cashing Market

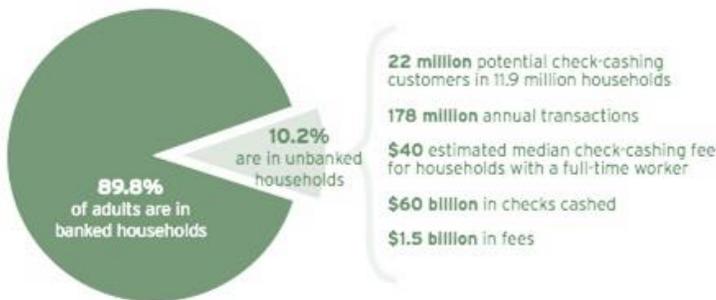


Exhibit 10. Use of financial services providers
 Source: Brookings 2008, Banking on wealth

1.4 Demand for banking in the LMI neighborhoods

Given the fact that branches are less present in LMI neighborhoods and that they usually result from earlier acquisitions, this starts to give a first idea about why there is such a lack of interest from the people living in these communities for banking. A study by the Center for Place Based Initiatives gives a counter-intuitive answer to this question, since 87% of residents agree that having a bank account is important and 65% find the presence of a branch to benefit the neighborhood. Despite not all using them, most respondents are decided to go close to a bank branch. An interestingly high 79% of respondents trust banks when getting financial services compared to other financial service providers: credit unions (66%), super markets (45%), and check cashers (17%). Despite this trust, many customers chose to engage in payday lending and check cashing paying anywhere from 5.5 times to 35 times more per month in fees.

Overall, the rationale for this project relies on the willingness of underbanked and unbanked people to shift from fringe banking services to traditional banks. This explains the creation of Emerging Markets Development Corporation to complement the work done by Emerging Markets. The alternative financial services account for \$100 billion transactions per year and LMI households pay \$8 billion in fees to 48,082 non-bank

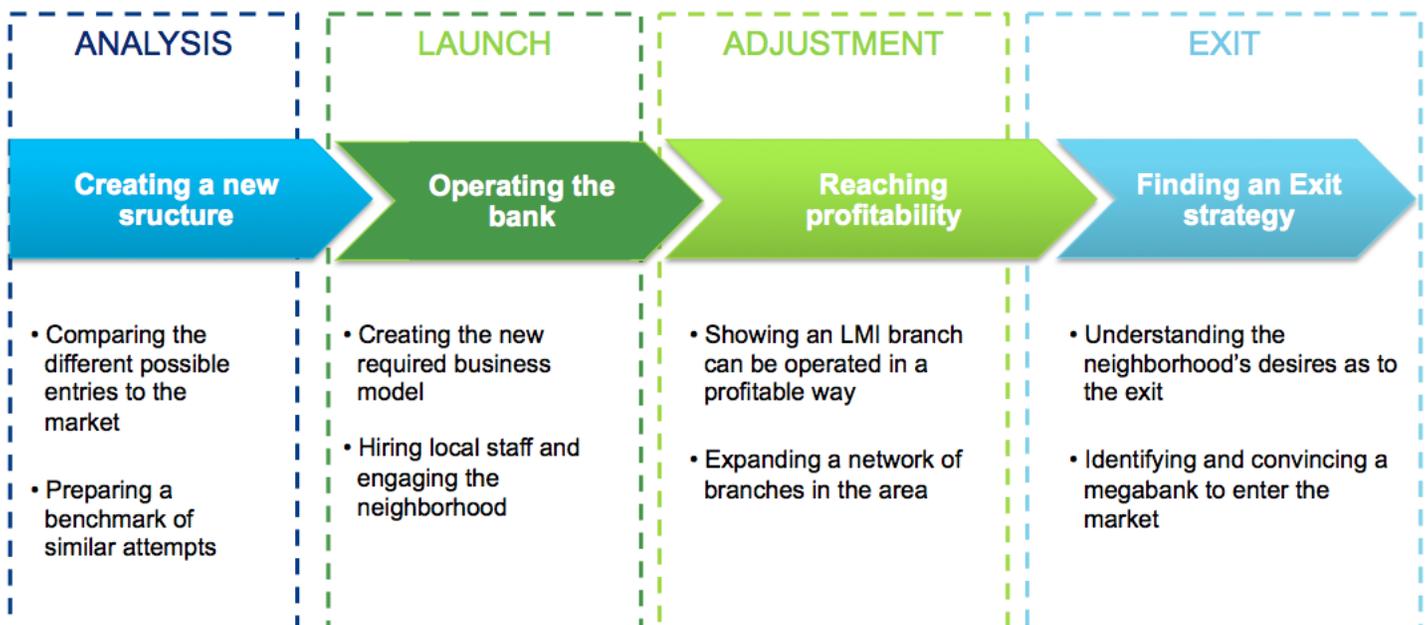
After decades of banking consolidation, the shift towards local banks is noticeable. Thomas Curry, Comptroller of the Currency recognized their importance in a 2013 speech by stating: “minority-owned institutions are so important because they serve communities that might otherwise not have access to an insured bank or thrift.” Although this quote refers to minority owned banks, the same reasoning applies for local banks in other documents.

However, so far, many community banks have been acquired and therefore disappeared. This brought Camden Fine, President and CEO of the Independent Community Bankers of America, to defend community banks and their interest to communities in an op-ed: “Community banks can take the time to get to know you, make loans to the small businesses in your community that the larger banks won't touch. Their success depends on building and maintaining good relationships with their customers. As the nation's voice for America's 8,000 community banks, we couldn't be happier that consumers are recognizing the benefits of locally run banks dedicated to the best interests of their customers and the overall economic health of their communities.”

The example of Sharebank in Chicago gives the justification of the demand and that financial institutions offer products and services that are not compatible with needs in the neighborhoods (Blank 2008). Started in the 70s for LMI areas, the bank served the area in a successful way until it failed during the 2008 crisis because of its lack of diversification (FDIC report). By offering products responding to specific communities, by allowing small deposit to be made on savings accounts and providing loans to local business owners, the bank was successful in bringing back local residents to the financial mainstream.

Combining the unsatisfied demand due to rigid financial products and the lack of geographic proximity of banks in a non negligible number of areas, creates a clear incentive for Emerging Markets to enter the market. There seems to be a robust demand ignored by risk averse banks in part due to lack of information and experiment. However, the public relations part must be taken into account right from the beginning since making large profits in LMI areas can cause terrible image damage.

Life Cycle of the Incubation of Inner City Neighborhoods Branches





Chapter 2. Regulatory issues linked to the creation of a new financial institution

Attempting to reverse the diminishing number of branches operating in LMI neighborhoods requires a strong push by Emerging Markets to fight the conservatism of investors as well as a pedagogical drive towards the population. In order to successfully navigate financial regulations, several hypotheses can be examined from chartering a new bank to buying an underperforming bank. My analysis shall focus on the regulatory obstacles facing such an operation.

In all considered solutions, however, building strong political ties to the local representatives is paramount to helping the project get off the ground. To ensure a greater success rate of the project, Jeff Hawkins, leader of the North American Financial Services Improvement Practice reminds us that

De novo reporting structure must be more tightly controlled than mature branches and governance and monitoring would be finely tuned for de novo issues and geared towards reaching specific targets - performance should be tracked against other de novo branches, and not against a network of existing branches. Similarly, the organizational structure should be established separately from the larger, existing network. De novo personnel must focus on relationship-building. Banks should be running a full sprint with marketing and promotions by Day One, not just starting the race. The goal is generating pre-opening consumer and small-business accounts and developing relationships. The opening day should drive enough traffic to the branch to generate new relationships with at least 100 new customers and \$1 million in deposits.

2.1 Establishing a new bank

The first option would be to charter a new bank. Given the American dual banking system, this charter could be a federal one or a state one. Overall, chartering at the State or at the federal level are long processes and take about 18 to 24 months overall. They require a significant amount of capital (5 to 7 million dollars), personnel and a business plan to cover the losses for the first three years. For banks of comparable asset size, operating with a national charter generally entails a greater per asset value supervisory cost than operating with a state charter. National banks pay a supervisory assessment fee to the OCC. Although state-chartered banks pay an assessment fee for supervision of their chartering state, neither the FDIC nor the Federal Reserve charges them for supervision. Overall local regulatory assessment fees are lower than federal ones.

The main advantage of a state-chartered bank comes from local access to decision-makers and the ability both to use political connections to expedite the process and get quicker and more appropriate answers.

2.1.1 Creating a national charter

Before going any further, exhibits 12 and 13 show the number of banks created since the 2008 crisis as well as the number of failed banks. Overall the business environment is not conducive to

such a creation. However, given the shrinking number of community banks, James Rockett, a partner at Bingham McCutcheon and a specialist of bank start-ups believes that starting a bank in this environment could reap incredible rewards as the economy heals. "I think you're seeing the same reluctance now to devote capital to banks as in the early 1990s when the government was trying to clean up the savings and loans crisis." All discussions with the FDIC give the impression of regulators unwilling to engage in a creation process. The three federal agencies that oversee federally chartered banks are: the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board, and the FDIC. Chartering a new bank requires interacting closely with all three regulators.

The general process of opening a bank is governed by the very idea of what a charter is. A charter governs the regulations of the bank, it is an agreement that governs the manner in which the bank is regulated and operates and authorizes the organization of the bank. For a national bank (12

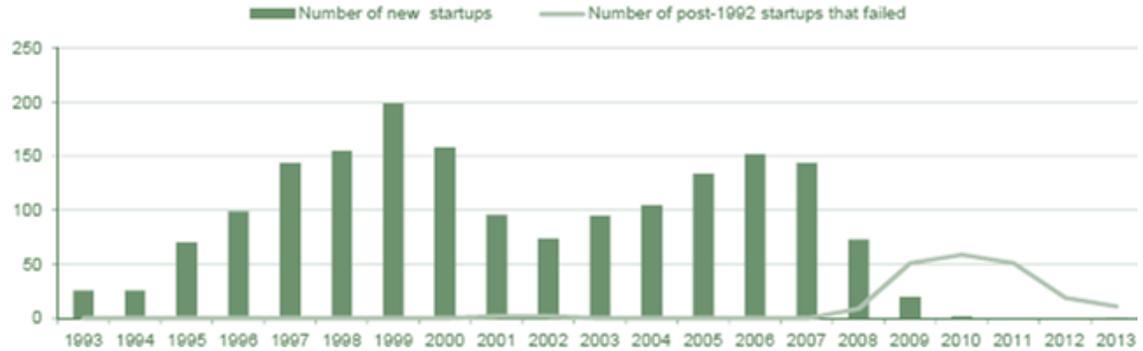


Exhibit 13. Bank creation statistics from 1993 to 2013
Source: Gull 2013, SNL financial

U.S.C. §§21-76 & Office of the Comptroller of the Currency, "Charters," The Comptroller's Corporate Manual): requirements include capital structure, articles of association, organizational certificate, and director, officer, and ownership requirements. National bank applicants must undergo a review or investigation by the Comptroller's staff on the plan for operating the bank. This plan should show that the bank has reasonable prospects for achieving and maintaining profitability, as demonstrated by projected bank balance sheets and income statements.

As a first step of an application, the pre-filing discussions, lasting 4 to 6 months, allow the organizing group composed of usually at least six people develops a vision for the bank and recruit senior management, directors and a CEO. The integrity and past history of all hired people will play a major role in the decision of accepting or denying the bank charter. These first hires should be instrumental in the creation process and withstand the regulatory scrutiny.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Startups established	158	96	74	95	105	134	152	144	73	20	2	0	0	1	1,054
Startups that eventually failed	26	15	13	17	17	20	20	3	0	0	0	0	0	0	131
Startups that eventually failed (%)	16.46	15.63	17.57	17.89	16.19	14.93	13.16	2.08	0.00	0.00	0.00	NM	NM	0.00	12.43

As of Jan. 8, 2014
 Limited to startups established since Jan. 1, 2000.
 Source: SNL Financial

Exhibit 12. Startup banks and failures per year
Source: SNL Financial



Depending on the State, there are a different number of required directors – usually over five – who have to commit money to show their confidence in the bank. Depending on the bank, the total amount covered by directors must be above 10 to 25% of the required capital. Unless the stakeholder is a bank holding company, there is a limit of 24.9% to the proportion owned by a single owner. The remaining amount of the capital will be shared between the shareholders you solicit to get the required capital.

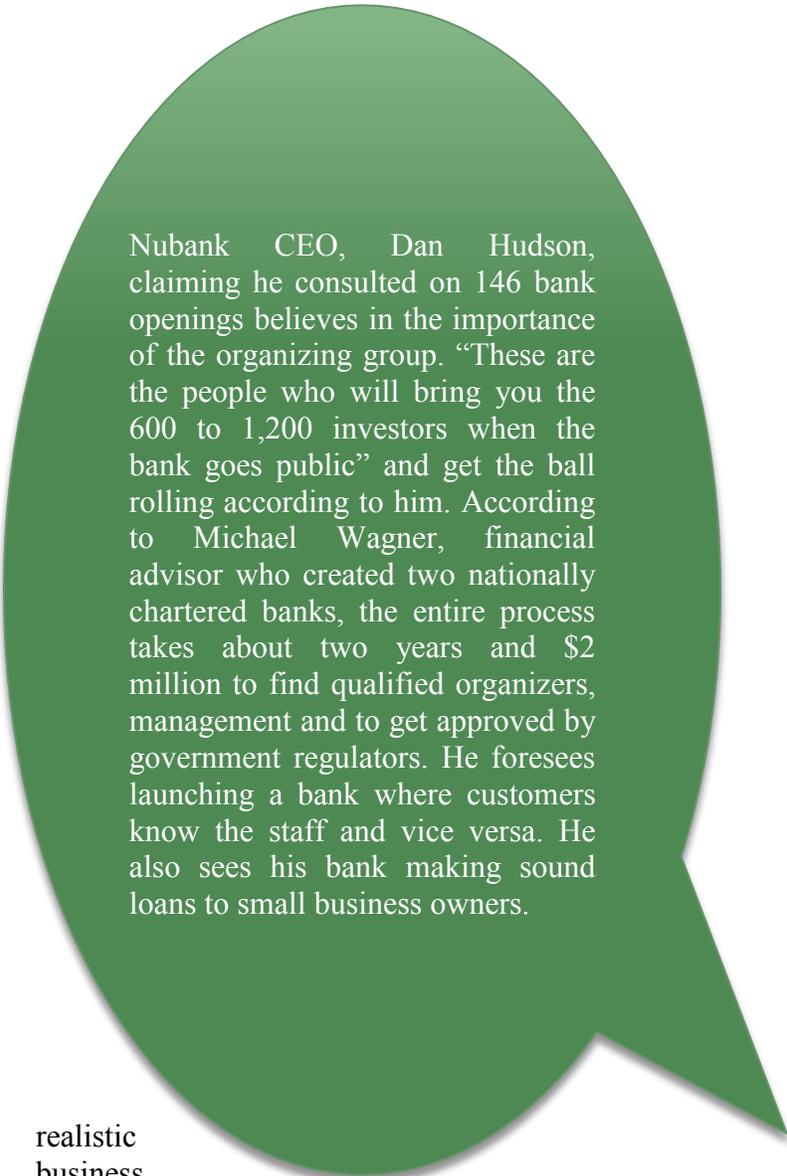
The required capital depends on the state and as well as on the strategic plan and the strategy. In Florida, the suggested capital requirement is \$6 million for a bank in a metropolitan area and \$4 million for a bank in a rural area. In New York, can be over \$10 million.

The second step is the application for a bank charter preceded by a pre-filing meeting with the state’s department of finance and banking. This will allow the filing of a complete financial and background information to avoid delays. This application usually costs a few thousand dollars and the response is due in 180 days.

The third step is the regulatory review during which the application is analyzed. The market and location are specifically taken into account in this process. Even if the competition is healthy and varied making the case for the need for a new bank in the area. Proving the environment is stable and economically sustainable for the bank is required. Market research should also include the precise location of the building and whether it shall be leased or bought.

Once the decision is made, you have up to one year to open your bank. Usually, this goes through a capital prelaunch during which the management prepares the final details for entering the market and bank stocks are sold. This final part usually takes 4 to 6 months. Once done, regulators check that the bank is ready to open do a final interview: post-conditional approval.

When presenting the application, the business plan plays a major role and is expected to be viable and



Nubank CEO, Dan Hudson, claiming he consulted on 146 bank openings believes in the importance of the organizing group. “These are the people who will bring you the 600 to 1,200 investors when the bank goes public” and get the ball rolling according to him. According to Michael Wagner, financial advisor who created two nationally chartered banks, the entire process takes about two years and \$2 million to find qualified organizers, management and to get approved by government regulators. He foresees launching a bank where customers know the staff and vice versa. He also sees his bank making sound loans to small business owners.

realistic business plan. Any change to it must require prior approval by the OCC. Setting the strategy for the first three years of operations; it should include a quarterly balance sheet, income statement and capital ratio projections with explanation of the underlying assumptions. The source of the capital constitutes an important issue in the business plan; a specific focus should be set on how the sources of funding are divers and allow maintaining adequate liquidity and mitigating credit risk.

Financial resources should allow the bank to live for three to five years under the current business plan while maintaining the required capital ratio. The OCC expects new banks to operate on capital ratios a lot higher than the normal capital regulations. The ratio of capital level depends on the business plan and risk level, the economics of the project, the team and the ability to raise capital again. Credit

risk, concentration risks, market risks affect the structure of the bank since “the OCC may discourage the filing of or deny a charter proposal that would focus primarily or exclusively on activities or services that will carry a high degree of risk or are determined to be predatory in nature. The OCC requires any proposal for a narrow focus bank to have well-defined business strategies (including contingency plans, sound funding sources, and projected capital commensurate with the risks) and specialized management.”(OCC chartering manual, 2010). This initial capital should pay for the fixed costs to create a competitive bank and sustain the business plan, despite uncertainties in the market, until profitability is achieved, while maintaining capital at an appropriate level to support safe and sound operations.

The competence of the bank’s management and directors is also closely monitored. The OCC performs a background check on directors and senior management. The field investigation entails meetings with members of the community and

2.1.2 Creating a state charter

The overall state chartering process looks very much alike the federal application process. Chartering requirements, such as minimum capital levels, ownership and management structure, and application steps and standards, vary from state to state, but the basic rationale remains the same.

On top of the state chartering, the State bank would have to apply for FDIC insurance before beginning operations. State-chartered banks have the option of joining the Federal Reserve System, so each state-chartered bank is regulated by at least one federal agency, either the Fed or the FDIC. To become a member of the Federal Reserve System, the criteria taken into account in the decision process are “the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the banking system.”

competitors to assess the market. A series of interviews with the proposed bank’s key personnel allows evaluating the soundness of the project. A de novo bank is generally subject to a targeted on-site examination four to six months after opening and a full examination conducted within the first year.

Specifically, the board of directors in order to provide the oversight and guidance to the bank should have enough experience. Specifically all directors need knowledge of national bank laws and regulations and at least one outside director should have prior banking experience. The board should be closely tied to the local community in order to attract capital and business as well as include experienced leaders, ready to commit time to provide adequate guidance. The senior management team should comprise staff with strong knowledge of the proposed business plan and recent professional experience in the field. An understanding of the regulations and experience relevant to the types of products and services the proposed institution plans to offer are relevant

As the case studies will show, all successful cases analyzed in this report were built through a state charter. Usually, strong political ties existed between the organizing group and the elected officials. For example, in the case of Bank of Bird-in-Hand, which received regulatory approval in November 2013, the bank accumulated around \$17 million dollars capital from about 200 shareholders and opened its doors to customers Dec. 7, 2013, John DeStefano, the former mayor of the city in which the bank was opening operated at the company as an Executive Vice President. Another example was born out of an agreement between the city of New Haven and the bank to focus on helping low- to- moderate-income families and developing financially weak districts in the city. These local successes display the necessity of strong political ties.

Even after a bank has obtained a charter for the new bank from the OCC, it must also obtain approval for FDIC insurance coverage through an application to the FDIC. The FDIC Regional Offices are responsible for reviewing and approving such

applications. One reason for the dearth of new banks in recent years is that the FDIC has not approved any applications for FDIC insurance coverage of new banks during this time, except for the *shelf charters* discussed below.

2.2 Creating a new credit union

Chartering a credit union entails a much lower threshold than chartering a bank. The second step, registration to the National Credit Union Shared Insurance Fund, entails similarly low barriers to entry. From an entry perspective, this strategy is the easiest even if building up the reputation and the number of customers does not constitute an easy task. Moreover, the exit strategy for this option constitutes a major issue.

Asset Category	Size	Number of Institutions	Percent of All Credit Unions	Total Assets	Percent of Total Assets
< \$2 million		2,537	24%	\$2.2	0.5
\$2 -\$10 million		3,457	33%	\$17.9	4.2
\$10-\$50 million		2,939	28%	\$68.0	15.9
> \$50 million		1,544	15%	\$338.7	79.4
Total		10,477	100%	\$426.8	100.0

Exhibit 16. Number of Federally Insured Credit Unions and Total Assets by Size Category (Dollars in billions; data as of June 2000)
Source: Sheshunoff Information Services, Inc., BankSearch (Austin, TX: 2000).

2.3 Partnering with an existing financial institution

Developing a model similar to the one pursued by Operation HOPE (Chapter 3), alleviates the burden of creating a new financial entity. Similarly, by asking a large bank to create a specific division close to the decision taken by Bank of Boston (Chapter 3) would remove the burden of raising capital and leave Emerging Markets only with the responsibility of operating the branches on a day-to-day basis. This process would solve the capital requirement issue: the large bank would bring the necessary capital to a joint initiative and be compliant. This move would alleviate the chartering burden by not entailing raising significant amounts of capital.

How to convince the banks to partner? How to maintain a structure inside a large one? Would banks be willing to create an independent financial entity under the umbrella of a major financial corporation? This would allow banks to take the risk and bring on board the necessary capital. Emerging Markets would be able to the operations side.

2.4 Recapitalizing

Given the current economic

state

an existing bank

of the country and of banks in general, several

hundreds of banks still have not found ways to cope with the new Basel III regulations and the tighter capital requirements mandated by the regulatory changes over the past few years. Therefore, a significant number of banks are looking for new investors to take over their businesses. The considered bank could be a failing bank or a bank requiring capital. Only existing banks are permitted to purchase failing banks. In recent years, the OCC introduced a “*shelf charter*” process, whereby individuals who are interested in purchasing a failed bank can organize a bank that is not activated until it has identified a target failing bank for purchase and the acquisition has been approved by the OCC. The establishment of a *shelf charter* requires the approval by the FDIC to grant deposit insurance and the OCC to acquire the failed/failing bank.

To acquire control of an existing bank through the purchase or recapitalization, the interested parties should submit a request to the OCC. Since 2008, to allow a quicker recapitalization of failing banks, the OCC created the *shelf-charter* concept and was imitated by state regulators. Investors could bid on failed banks, applying for a *shelf-charter*. Potential bank owners not currently affiliated with an insured depository institution qualify to bid on failed financial institutions for which the FDIC is acting as receiver. The OCC expects them to have identified management and to have capital ready to inject in the failed institution. Since the bid does not target a specific bank, the OCC’s preliminary approval is conditional on the applicants providing a detailed business plan as part of the acquisition proposal for a failed institution. Depending on the origin of the funds, the approval would be more or less easy to ensure: funds from a private investor are welcomed more than funds from an investment fund. The review period for the file is 60 days.

When deciding on the approval of the purchase, the OCC takes into account criteria very similar to those mentioned in the chartering process:

- Maintaining a sound banking system.
- Encouraging a national bank to help meet the credit needs of its entire community.

- Relying generally on the marketplace as the best regulator of economic activity.
- Encouraging healthy competition to promote efficiency and better service to customers
- Determining the acquiring bank’s prospects for success following the transaction.
- Minimizing any negative effect on the affected community.

The main advantage in recapitalizing an existing bank would be to benefit from an existing customer base as well as a good sense of the neighborhood in order to allow the first few months in business to be more effective. Moreover, having an established business can enable the opening of a new LMI branch, with costs being in part subsidized by the other branches. Specifically, being able to not have to go through the entire recruiting and relationship building process will be an advantage. Finally, given the major regulatory constraints put on the creation of new banks this solution could allow more flexibility and mobility. Once the bank was acquired, new branches could be opened in specific areas. A national bank that wishes to establish a branch office must submit an application to the OCC and obtain its prior approval.

Specifically, community banks seem a perfect target for such an operation given the increase in capital requirements they have faced after the financial crisis. Out of the 7,600 existing community banks, up to 2,000 could close down because of a lack of capital and the inability to comply. Specifically, they have seen their absolute contributions to the FDIC multiplied by up to ten times. Contributions from a community bank in Massachusetts, Beverly Cooperative, shifted from 26,000\$ a year to around 200,000\$.

An example of such an operation was the acquisition of Great Florida Bank by Florida Community Bank in 2010. With \$1.14 billion in assets, Great Florida Bank faced a regulatory enforcement action in 2010 and had not managed to reach the “well capitalized” threshold. This bank was created in 2004 and raised \$60 million in startup capital, followed by a \$109 million capital

raise in 2005. Such an example of a quick merger and acquisition is common. Depending on the regulatory approval, such an acquisition would allow a quick growth.

Overall, this option appears to be the lighter regulatory choice, combining an existing consumer

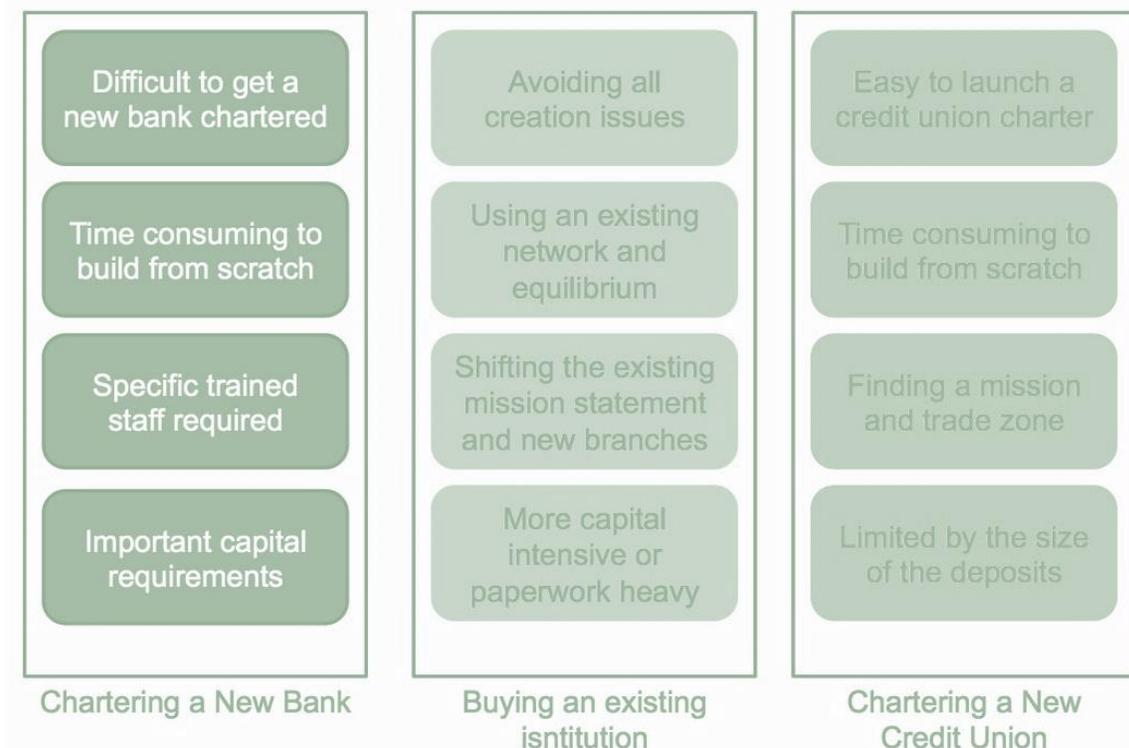
base and a setting where a new impulse is needed. Buying an underperforming bank would not allow the same buying facilities given the lack of shelf license available. More costly and allowing a less significant change, underperforming banks seem a less secure strategy.

2.5 Starting a new financial corporation

To avoid chartering a new bank or taking one over, building a check cashing facility could be another option while partnering with a bank to transition smoothly people from check cashing to saving. Nix check cashing (chapter 3) is such an example, with a 10% conversion rate. Except for some state specific regulations banning the very existence of check cashers, no major regulatory hurdle seem to arise. Filing an application requires no specifically burdensome process. However, if such a strategy were chosen, a concern would be the brand image. Starting to help a neighborhood by creating a check cashing institution usually perceived by the media as predatory would harm from a public relations perspective the long-term goal of opening a credit union or a bank. Moreover, the success of Nix check cashing has been based on a strong brand, which took over 60 years to establish. Would starting a new bank be a much longer process?

Finally, the option of creating a bank holding company with an existing bank could be an option. With the company holding at least 25% of the capital, this company controls the election of the majority of directors. Such a structure would allow megabanks to be a part of the creation while adopting an independent structure for the newly created entity.

Main Policy Options to Enter the Market





ABSOLUTELY
NO LOITERING
NO PANHANDLING
RESTAURANT REPRODUCED

CASH ONLY

NO CASH
NO CHECKS
NO CREDIT CARDS
NO DEBIT CARDS
NO VISA
NO MASTERCARD
NO DISCOVER
NO AMERICAN EXPRESS

1 BREAKFAST PC	4.49	5.49
2 BREAKFAST PC	3.29	4.29
3 BREAKFAST PC	3.99	4.99
4 BREAKFAST PC	4.69	5.69
5 BREAKFAST PC	5.39	6.39
6 BREAKFAST PC	6.09	7.09
7 BREAKFAST PC	6.79	7.79
8 BREAKFAST PC	7.49	8.49
9 BREAKFAST PC	8.19	9.19
10 BREAKFAST PC	8.89	9.89
11 BREAKFAST PC	9.59	10.59
12 BREAKFAST PC	10.29	11.29
13 BREAKFAST PC	10.99	11.99
14 BREAKFAST PC	11.69	12.69
15 BREAKFAST PC	12.39	13.39
16 BREAKFAST PC	13.09	14.09
17 BREAKFAST PC	13.79	14.79
18 BREAKFAST PC	14.49	15.49
19 BREAKFAST PC	15.19	16.19
20 BREAKFAST PC	15.89	16.89
21 BREAKFAST PC	16.59	17.59
22 BREAKFAST PC	17.29	18.29
23 BREAKFAST PC	17.99	18.99
24 BREAKFAST PC	18.69	19.69
25 BREAKFAST PC	19.39	20.39
26 BREAKFAST PC	20.09	21.09
27 BREAKFAST PC	20.79	21.79
28 BREAKFAST PC	21.49	22.49
29 BREAKFAST PC	22.19	23.19
30 BREAKFAST PC	22.89	23.89
31 BREAKFAST PC	23.59	24.59
32 BREAKFAST PC	24.29	25.29
33 BREAKFAST PC	24.99	25.99
34 BREAKFAST PC	25.69	26.69
35 BREAKFAST PC	26.39	27.39
36 BREAKFAST PC	27.09	28.09
37 BREAKFAST PC	27.79	28.79
38 BREAKFAST PC	28.49	29.49
39 BREAKFAST PC	29.19	30.19
40 BREAKFAST PC	29.89	30.89
41 BREAKFAST PC	30.59	31.59
42 BREAKFAST PC	31.29	32.29
43 BREAKFAST PC	31.99	32.99
44 BREAKFAST PC	32.69	33.69
45 BREAKFAST PC	33.39	34.39
46 BREAKFAST PC	34.09	35.09
47 BREAKFAST PC	34.79	35.79
48 BREAKFAST PC	35.49	36.49
49 BREAKFAST PC	36.19	37.19
50 BREAKFAST PC	36.89	37.89
51 BREAKFAST PC	37.59	38.59
52 BREAKFAST PC	38.29	39.29
53 BREAKFAST PC	38.99	39.99
54 BREAKFAST PC	39.69	40.69
55 BREAKFAST PC	40.39	41.39
56 BREAKFAST PC	41.09	42.09
57 BREAKFAST PC	41.79	42.79
58 BREAKFAST PC	42.49	43.49
59 BREAKFAST PC	43.19	44.19
60 BREAKFAST PC	43.89	44.89
61 BREAKFAST PC	44.59	45.59
62 BREAKFAST PC	45.29	46.29
63 BREAKFAST PC	45.99	46.99
64 BREAKFAST PC	46.69	47.69
65 BREAKFAST PC	47.39	48.39
66 BREAKFAST PC	48.09	49.09
67 BREAKFAST PC	48.79	49.79
68 BREAKFAST PC	49.49	50.49
69 BREAKFAST PC	50.19	51.19
70 BREAKFAST PC	50.89	51.89
71 BREAKFAST PC	51.59	52.59
72 BREAKFAST PC	52.29	53.29
73 BREAKFAST PC	52.99	53.99
74 BREAKFAST PC	53.69	54.69
75 BREAKFAST PC	54.39	55.39
76 BREAKFAST PC	55.09	56.09
77 BREAKFAST PC	55.79	56.79
78 BREAKFAST PC	56.49	57.49
79 BREAKFAST PC	57.19	58.19
80 BREAKFAST PC	57.89	58.89
81 BREAKFAST PC	58.59	59.59
82 BREAKFAST PC	59.29	60.29
83 BREAKFAST PC	59.99	60.99
84 BREAKFAST PC	60.69	61.69
85 BREAKFAST PC	61.39	62.39
86 BREAKFAST PC	62.09	63.09
87 BREAKFAST PC	62.79	63.79
88 BREAKFAST PC	63.49	64.49
89 BREAKFAST PC	64.19	65.19
90 BREAKFAST PC	64.89	65.89
91 BREAKFAST PC	65.59	66.59
92 BREAKFAST PC	66.29	67.29
93 BREAKFAST PC	66.99	67.99
94 BREAKFAST PC	67.69	68.69
95 BREAKFAST PC	68.39	69.39
96 BREAKFAST PC	69.09	70.09
97 BREAKFAST PC	69.79	70.79
98 BREAKFAST PC	70.49	71.49
99 BREAKFAST PC	71.19	72.19
100 BREAKFAST PC	71.89	72.89

THE GREAT
WOULD
Rudy
FOR THE GREAT
FOOTPRINT

Chapter 3. Case studies: existing examples of similar initiatives

Assessing the viability of such a project requires having a close perspective on the previous attempts, failed or succeeded of similar projects. By analyzing the transformation of Nix Checkcashing into a credit union, we shall discover the difficulty of bringing people to the financial mainstream. Citibank's withdrawal from Massachusetts shall remind us the difficulty of penetrating a market *de novo* and the *Compte Nickel* example underlines the necessity to ground the project on existing networks. Operation HOPE's change of business model highlights the difficulty of relying on CRA subsidies and the necessity to demonstrate the business opportunity. CheckSpring Bank and First Community Bank, two successful examples, display that such a project can in fact be viable.

3.1 Nix check cashing in California purchased by Kinecta Credit Union¹

In 2007, Kinecta Credit Union announced the acquisition of Nix Check-cashing for 45 million dollars giving the credit union access to the largest check-cashing network of California with 55 branches. In 2006, Nix had more than five million customer visits, totaling more than \$1.4 billion in annual transaction volume, serving customers in and around the Los Angeles area. Kinecta Federal Credit Union owns \$3.9 billion in total assets, approximately 200,000 member- owners, nearly 700 employees, and 23 branches throughout the Southland.

The deal was structured around shifting Nix check cashing to become Kinecta Alternative Financial Solutions, Inc. a subsidiary of Kinecta rather than shifting former check cashing outlets to bank branches. Therefore, Nix Check cashing became a Credit Union Service Organization (CUSO). CUSOs are specifically designed to allow credit unions greater flexibility as to the services they can provide to their members and can also enable credit unions to pool their resources on a specific project.

During the first year of joint operation, this project allowed 15,000 people to open accounts at the credit union, five regular service windows to be created in check cashing facilities, and a reduction of fees on check cashing and payday loans by almost 20%. The goal to reduce the standard costs in the industry was therefore met. They also launched the *Change For Tomorrow* program in order to allow customers who cashed a check, to automatically put part of the money they receive into a checking account. With a 10% shift from payday loans to traditional accounts, the move allowed the firm to expand their customer base in a significant way.

Creating this joint venture between a check-casher and a credit union has allowed many customers to discover banking and create an account. However, many of the customers reached by Nix check cashing were reluctant to enter a bank, fearing not to meet the necessary requirements. Replicating this experience requires one difficult condition, having built a strong, trusted check-cashing brand and having created a strong well-known network. Nix was founded in 1966 and only with the years was it able to become trusted and seen as a credible advisor by clients.

Creating a non-bank financial institution to build a network without the constraints put on a banking institution makes sense financially. Therefore the option of launching a check cashing structure to promote banking can be

¹ Press release, Kinecta Federal Credit Union announces expansion, August 1st, 2007

Check Cashers, Redeemed, New Rok Times, DOUGLAS McGRAY, Published: November 7, 2008

Kinecta FCU CEO Lagomarsino Says 'The Honeymoon Isn't Over' With Nix, BY HEATHER ANDERSON, Credit Union Times, July 2, 2008

Kinecta Federal Credit Union Celebrates the Anniversary of Nix Check Cashing Acquisition, Aug 14, 2008, Reuters

considered viable as part of this project. The process of building a trusted-brand and network should, however, take about as long as building a *de novo* bank. From a public relations' perspective, attempting to help the community by taking a controversial business form might be a controversial move. Specifically, from a funding point of view this might be a damaging move, even if the structure of Credit Union Service Organization presents many advantages.

Case study: Nix Checkcashing & Kinecta Credit Union

	Description
Outcome	“ In 2007, Kinecta Credit Union announced the acquisition of Nix Check-cashing for 45 million dollars giving the credit union access to the largest check-cashing network of California with 55 branches”
Key methods	<p>Merging two originally strong institutions</p> <ul style="list-style-type: none"> • Both networks were originally strong with very different geographic specificities • Customers were different allowing to minimize risk of a failed merger • Merger strengthened the structure and allowed more stability <p>Combining the networks rather than merging them</p> <ul style="list-style-type: none"> • Booths with the other brand were opened in each others' location rather than formally merging both • Profits of the merger were shared: all fees were lowered on check cashing • Keeping brand identities
Take aways	<p>Shifting customers' habits is tough</p> <ul style="list-style-type: none"> ▪ Slow move from check-cashing to regular banking, not the quick move expected ▪ Doubts on the regulatory viability of the newly created structure ▪ Disengagement of some partners in the process including Operation HOPE

Source: Interviews & Public Sources

12 PAE Presentation – February 2014

©2014 – Gatien Bon

3.2 Citibank in Massachusetts decides to close down many branches after an unsuccessful entry in the State²

At the beginning of 2007, Citibank decided to enter the banking market of Massachusetts for the first time. This decision is usually accompanied by the acquisition of a significant number of smaller banks in the area. This allows the entrant to benefit from an already existing set of customers and be able to build from their previous reputation. In particular, Bank of America's growth in the region has been fed by such acquisitions – including the acquisition of Bank of Boston (Chapter 3.5). Similarly, Webster Bank from Connecticut when entering the market in 2004 created 22 branches but also took over 18 through the acquisition of First Federal Savings Bank of America, thus already having some existing deposit base.

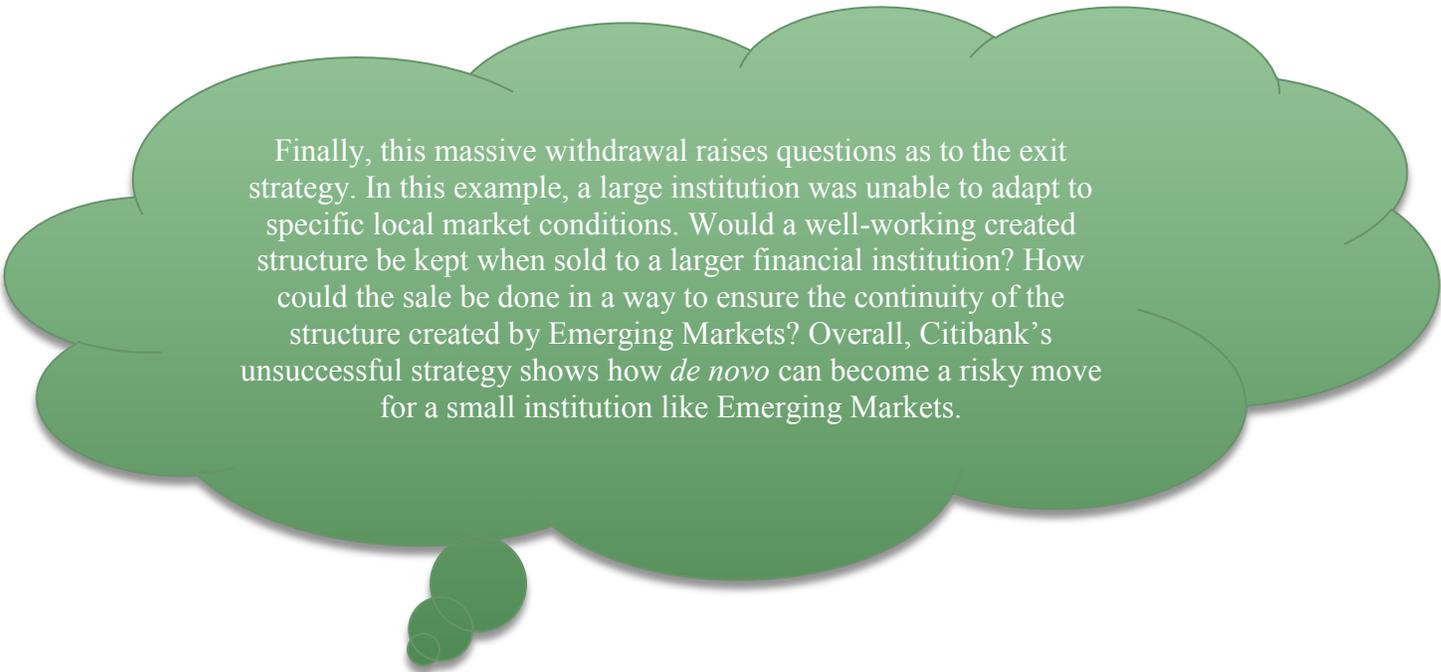
² Why Citi made a big Mass. withdrawal, Matthew L. Brown,, Boston Business Journal, December 14 2012

However, in this case, Citi decided at the end of 2006 to pursue a *de novo* strategy and to open 31 branches by the end of June 2007. Opening a bank costs around 3 million dollars and breaking even requires having 30 million dollars of deposits. Five years later, however, 20 of the 31 branches had less than 40 million dollars in deposits and only three were believed to be profitable. Therefore, six years after the grand opening, Mike Corbat, Citibank's CEO, decided to close down 9 of those branches and to continue withdrawing from the Massachusetts market.

This massive entry of Citibank followed by a quick retreat entails many insights for Emerging Markets' plan to create branches in specific LMI neighborhoods. First of all, the choice of the locations should occur after an intense preparation. In this case, some branches were located opposite branches that had been up and running for a long time. Targeting of the precise location of the branch or branches is crucial. Specifically, Citibank decided to enter in the Mill Cities where local banks had been the only banks in town for years. These local banks remained the only banks because the large banks had withdrawn from these areas considered not profitable enough. Entering these areas decades later would have required a purposeful strategy to explain why this time was different and why after leaving the community, the megabank was planning to help the area.

Between going *de novo* and acquiring an already existing network of branches, a major difference in terms of timeframe exists. Even at Citibank, with enough cash to sustain these new branches, the decision was made to close them down because they were not performing well enough and quickly enough. For a small structure like that desired by Emerging Markets, if the breakeven does not occur fast, given the smaller financial capacity of the institution, the entire project might be at risk. Therefore, creating new branches with no pre-existing structure might represent a very risky enterprise.

When deciding to buy an existing institution and to recapitalize, the newly created branches' losses could be covered during the first few years by the established ones. This would buy time for the *de novo* branches to have enough time to blossom.



Finally, this massive withdrawal raises questions as to the exit strategy. In this example, a large institution was unable to adapt to specific local market conditions. Would a well-working created structure be kept when sold to a larger financial institution? How could the sale be done in a way to ensure the continuity of the structure created by Emerging Markets? Overall, Citibank's unsuccessful strategy shows how *de novo* can become a risky move for a small institution like Emerging Markets.

3.3 Operation HOPE opening financial centers with basic financial products

Operation HOPE was created initially as an NGO aiming to give undeserved communities a physical banking presence and to train communities to use a financial system. Since their goal is to run themselves out of business, they planned to get out of the area at some point, once a sufficient financial literacy level was reached. Their model relies on giving soft banking services with relations with banks and credit unions in order to bring hard banking services.

Initially, their operating model consisted in creating large agencies with 30 people in zones where there had been no bank in 30 years to aim to educate the community. Once a decent financial literacy level was reached and banks were well implanted in the area, their exit strategy passed through selling the center to a financial institution. However, the cost of running such centers for a non-profit was 300 to 700 thousand dollars per year per center, way beyond a non-profit's means. Shifting models was required and they decided to close down these centers without selling them as originally planned.

Operation HOPE decided at the beginning of the 2000s to shift to the HOPE inside model. They partner with a financial institution who pays for all utilities and gives them a spot to provide soft services inside a branch. Their collaborations with several partners allow them to develop a strong network of presence and to have a light structure. Moreover, the financial institution -making the model self-sustaining- covers all the costs.

From a regulatory perspective, being a non-profit giving financial advice inside a branch requires avoiding being accused of getting money for exclusive referrals. They therefore do not refer clients specifically to the partners where their office is located. The physical location of their office, the presence of the branch at their events ends up being more effective than a formal contract of referral since customers chose to go here because they are convinced it is convenient. Compared to the Nix Check Cashing business model, their difference relies in the trust a neutral advisor gains and that a check-casher has trouble building. Overall, this allows their conversion rate to be higher even if the precise metrics they keep were not disclosed in our conversations.

To convince banks to buy-in to the model, they work on not defining themselves as a social project or as a CRA helping project. They offer this as a business development activity with a presentation very similar to the one Emerging Markets has chosen. This goes through building a precise matrix of data collection, keeping track of the evolution of figures and evaluating all actions.

The change in the business model might be an indicator of the size of the challenge of operating such large institutions in a sustainable way. Such a shift sounds discouraging for the Emerging Markets' project. However, their model did not pick one of the two possible sides: they chose to build financial literacy centers rather than banks. Not going all the way may have prevented the investors to see the way their business model could be successful.

Case study: Operation HOPE, building financial services and spinning them off

	Description
Outcome	“Operation Hope has 250 partners nationally, the Anacostia center has 80 partners, including government agencies and technology companies. The partners pay an annual fee and have their employees volunteer to give seminars. Operation Hope's ultimate goal is to build up relationships and deposits at the centers and then sell them in seven to 10 years to a bank in the area.”
Key methods	Shifting business model to avoid excessive costs <ul style="list-style-type: none">▪ Decided to remain a non-profit making their initial model of autonomous financial centers unsustainable▪ Shifted to partnerships with financial institutions to educate and train customers and prospects in the neighborhoods
Take aways	Low cost, win-win financial structure <ul style="list-style-type: none">▪ Costs paid for by the host financial institution avoiding to rent a building▪ Scarce staff in charge of trainings and outreach of the community Combining financial education and loans <ul style="list-style-type: none">▪ Creating a business the goal of which is to run itself out of business▪ Improving the credit score of customers▪ Partnering with lending clubs▪ Regulatory challenge: avoiding referrals in an exclusive way to the financial partner

Source: HOPE interview

3.4 CheckSpring Bank trying to develop a low fee banking structure³

In 2007, while Manhattan had one bank per 3,000 inhabitants, the Bronx only had one for every 15,000 residents according to Crain's New York Business. Alexei Giannoulis therefore decided to buy an existing bank for 13.4 million dollars⁴ in order to create CheckSpring Bank. The bank aims at establishing a low cost alternative to check cashing establishments while allowing those customers to establish credit, build assets and save money. The long-term mission is to move non-customers to check cashing and regular accounts. Therefore, they have created the choice between check cashing or money transfer and the deposit and lending products available at traditional banks⁵. Partnerships with Ariva and Seedco allow providing customers with access to free tax preparation services, financial education and asset building programs.

By combining in one location check cashing and traditional banking services, the bank was attempting to help an underserved population of low-income New Yorkers to mainstream banking. After changing its name to Spring Bank, a second branch was opened in Harlem in 2010. Co-founder Charlie Wilcox explains: “We are

³ Spring Bank set to open on Monday in Harlem with a mission to serve underbanked New Yorker, PHYLLIS FURMAN / NEW YORK DAILY NEWS, December 5th 2012

⁴ Letter of approval of the 13.4 million \$ purchase:

http://www.fdic.gov/regulations/laws/bankdecisions/depins/CheckSpring_Bank_Bronx_NY_12-15-2005.pdf

⁵ CheckSpring Bank -The Bank for the Underbanked, Shane Adam Yellin, Cash Cow Show, March 2011

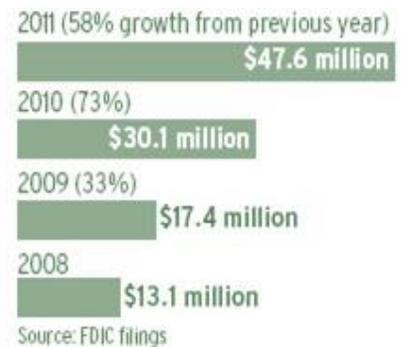
able to make money and serve the underbanked customers and small businesses that nobody wants, the neighborhood will benefit if the bank follows through.”

To ensure a simple marketing strategy, Check Spring decided to charge \$1 on any operation up to \$1000 and 1% of the amount for larger operations –compared to a 1.91% maximum for check cashers. Brian Blake, vice-president of the bank also defends the lack of minimum amount on savings accounts: “While a bigger bank might decide their balances are too low, those balances appeal to us.” This strategy targeting the working poor has allowed them to reach out to 270 business customers and 3,740 retail customers as of 2010 and to breakeven in four years. Assets reached 31 million at the end of 2009, up from \$18 million at the end of 2008. Staffing has grown to 28 workers from 19. The expansion rhythm is cautious and sensitive of the community as described by Blake: “We will continue to open branches as long as demand can be effectively and safely met.”

Before being bought by Giannoulis, CheckSpring had applied for a bank charter in 2006. However, missing a fundraising deadline⁶ in December 2006 required filing a new application and eroded trust in the business plan. Turning unbanked customers to savings’ accounts holders did not appeal to investors. Therefore in 2007, Giannoulis CheckSpring Trust and Demetris Giannoulis applied to the state of New York Banking Department to acquire the control of CheckSpring Bank. The first opening of a Bronx bank since 1982 was celebrated in November 2007 and one of the 146 new banks opened in 2007. In a few years, the Center for Financial Services Innovation praised the bank for their efforts and NY mayor Bloomberg announced his savings account program to help use tax refunds from a CheckSpring bank.

From an operational perspective, the loss went down from \$2 million in 2008 to a profit in 2010 (\$1.6 million loss in 2009). Capital ratios are more than four times the regular ratios faced by an existing bank and decrease as assets increase and losses are reduced. Commercial real estate lending account for 80% of lending compared to 26% in regular banks creating a fear that lack of diversity could threaten the bank.

Exhibit 14. Loans at CheckSpring as of December 31st
Source: **Guess who's lending again** By Steve Daniels
April 02, 2012, **Chicago Business**



Overall, this case study shows the possibility of opening such a bank as well as the difficulty to bring private investors on board. Moreover, concerns on the lack of diversity remain as long as the bank has not been able to open several branches. There are also concerns on the effect of opening new branches on the capital ratios.

⁶ The other Giannoulis bank: CheckSpring Bank April 04, 2010 | By Becky Yerak, Chicago Tribune

Case study: CheckSpring Bank trying to develop a low fee banking structure

	Description
Outcome	“In order to create a low-fee, easy to access banking system, buying a bank not managing to meet capital requirements and already having a State-charter has been a success and allowed to meet the goal the founders had in mind.”
Key methods	An operational and banking success <ul style="list-style-type: none">▪ Low fees have been guaranteed, way below the NY State usury rates▪ Branches became profitable in only two years and managed to attract significantly new customers to create accounts▪ Capital ratios way over the minimal requirements▪ Risk: large amount of commercial real estate loans & lack of diversity Bringing large investors on board <ul style="list-style-type: none">▪ The previous bank failed because the small investors did not manage to raise capital quickly enough▪ Having one investor able to bring in several million dollars alleviates the chartering process
Take aways	Post-crisis similar projects work <ul style="list-style-type: none">▪ Harsher regulatory constraints have still allowed the project to be successful▪ Required capital has been raised

Source: Public sources

3.5 First Community Bank, Massachusetts⁷

The project was created when the House banking Committee decided to hold hearings in MA because redlining was more pregnant than in other states. While 8 of the 9 heads of banks declined the invitation to testify and hid from the regional hearings by complaining about the CRA, Ira Jackson advised Bank of Boston to develop a new strategy and treat the inner cities as an emerging market. He doubled the creation of the bank by creating the Bank Boston Development Corporation in complement.

After initial skepticism, people took pride in the project, was awarded an award of best CSR project by the VP in the White House. All bankers knew the project. This succeeded only because they had the right people and the willingness to succeed. The collective was strong and managed to make a peripheral issue the central one. Though it required a lot of work.

Creating in only six years a network of 27 branches devoted to Inner-cities and to LMI customers was a challenge taken by Bank of Boston at the beginning of the 1990s. Their experience enlightens the challenges of creating a specific culture for these branches inside a mid to large organization.

⁷ Rosabeth Moss Kanter, Harvard Business School Case, *First Community Bank Social and Sustainable Entrepreneurship*, edited by G. T. Lumpkin & Jerome A. Katz

In less than two years, by June 1991, the bank celebrated the opening of the 14th branch, doubling the initial number of branches opened. In particular, they were able to bring banking back to neighborhoods that had not had a branch for 23 years. In order to achieve such a successful outcome, market analysis was the key to lead to successful product design.

When, in 1989, Bank of Boston decided to establish First Community Bank to serve the needs of underserved urban minorities, Gail Snowden headed a network of seven branches (at first called Boston First Banking). This start-up was handling 140 million dollars of commitment by the community development part of the bank specifically serving these communities. Such a decision was a way to respond creatively to the CRA requirements to get the best possible ranking for Bank of Boston.

In order to start the project, the First Step Mortgage product, designed to help first time buyers, was expanded. On top of hiring local residents and offering expanded hours, Boston First Community Bank was designed to decline the mortgage designed to be accessible to first time homeowners with few requirements.

On a day to day basis, Community Development Officers (CDO) were assigned to a specific ethnic and language group to ensure service as close to the customer as possible. Meeting with members of the community and attending the important events happening, the CDOs were seen as indispensable to the close relationships created in the area. 49% of the staff was composed of people of color. This allowed them to make smaller efficient loans as well as to help borrowers through technical assistance.

These close links with local customers interested investors willing to invest in social ways and helped First Community Bank to boost their deposits by reaching out to major institutional organizations. In particular, the City of Boston (5 million dollars) and Brown University were part of a 50 million dollars increase in deposits in

1993.

A significant growth in individual deposits created the opportunity after two years of business to make the move to serve small businesses in the neighborhood by creating many loans and financial trainings designed for small-business owners. The bank within a bank met targets and expanded to 20 branches. They had a lot of space and were a specific, separate operating unit. The successes kept coming for the bank: after 4 years, in 1994, the bank became profitable, with 4.1 million dollars in earnings out of 20.7 millions in revenue. With 29 open branches in 1995, First Community Bank was able to drive almost 5 million dollars in earnings. Out of the 541 million dollars earned by Bank of Boston, this represented a drop in the ocean but the goal was to build a model for Community banking in LMI areas.

First Community Bank in 1995	
Deposits	\$ 758 million
Number of Branches	29
Staff	233 (8 business development officers, 3 Community development officers)
Total revenue	\$ 24.9 million
Pretax revenue	\$ 4.8 million

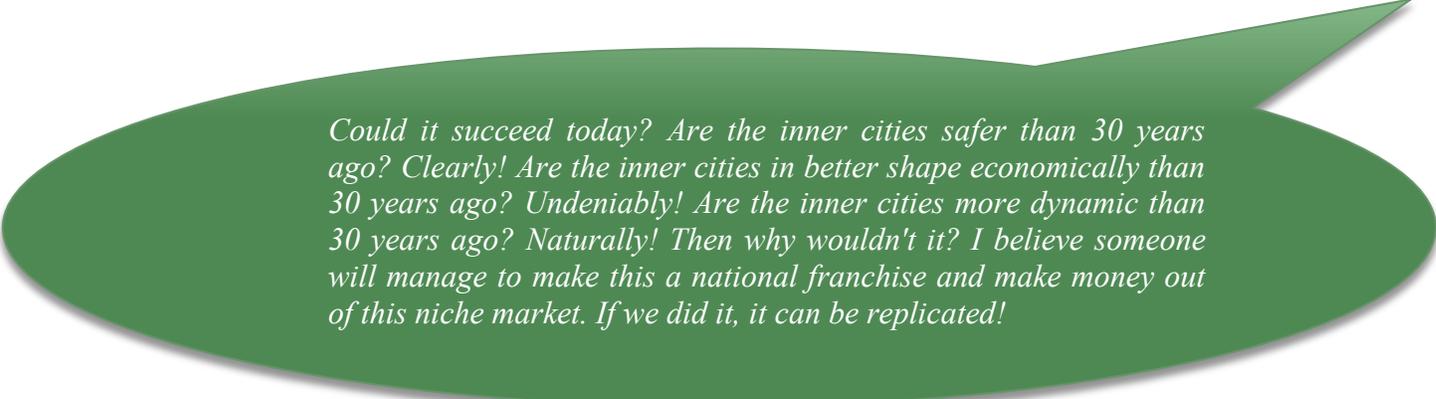
Despite these major successes and early victories, operating a bank inside a bank constitutes a major challenge. First Community bank constituted only an administrative unit inside Bank of Boston despite having centralized its own management and lending resources. Gail Snowden, CEO, was very well known in the Boston community and able to use this activist reputation to build ties and make the creation of the bank a success. Her plan was to bring the bank to profitability in order not to be seen as a philanthropic move but as a business opportunity and a source of revenues. Her fight against the large bank's dominant culture happened inside the bank as well. As she explained "We had to fight against a culture and a series of beliefs. Sometimes people didn't even know why they were resisting". The necessity to change the culture of the bank of Boston was only rendered possible both by the personal commitment of the Bank's CEO to diversity and experimentation and by Snowden's reputation. Moreover, the management's decision to promote minorities inside First Community Bank created many supporters fighting inside the structure to ensure their segment got an adequate amount of resources by promoting it as a new business opportunity.

An "ongoing battle for resources and attention" constantly had to happen according to former managers, to keep First Community Bank's turf and avoiding getting put back in the bank as a regular business unit. Moreover, they were willing to get extra branches under their control – all of the CRA branches- in order to get more loan officers and be helpful to more neighborhoods. However, since most LMI branches extended loans and banking products to affluent neighborhoods to ensure more business, no other existing branch was added to First Community Bank. In fact, inside the bank, the structure was seen as only helping with the CRA ratings and creating extra work. Specifically, these branches took longer to break-even, required specific marketing tools and took time away from focusing on large corporate accounts. Some customers even wondered if the different branding was meant to hide the CRA lending done by the Bank by hiding it under a different name.

Due to a major educational effort by the entire management of Bank of Boston, First Community Bank managed to create a political network of supporters ranging from the opportunistic supporters willing to have great CRA rating to true believers in the core mission of the structure.

Despite this success, when Bank of America acquired Bank of Boston, the entire structure disappeared. This example sets an example of successful delivery of banking services to previously unbanked or under banked populations. Moreover, the case in point displays the necessary conditions to successfully manage a different culture representing a small portion of the business inside a large organization. By delimiting a clear business, advocating for it and framing it in an interesting way for the top management to fight the current culture, Snowden and First Community bank sets the standard for what should happen after Emerging Markets sells branches to a larger structure. Data after the absorption by Bank of America is not available but not being able to even identify the branches that previously were First Community Banks is a sign that the absorption diluted their specific identity. Being cautious about the reabsorbing will be needed.

According to Ira Jackson who was leading the project for Bank of Boston:



Could it succeed today? Are the inner cities safer than 30 years ago? Clearly! Are the inner cities in better shape economically than 30 years ago? Undeniably! Are the inner cities more dynamic than 30 years ago? Naturally! Then why wouldn't it? I believe someone will manage to make this a national franchise and make money out of this niche market. If we did it, it can be replicated!

Case study: First Community Bank, a bank inside Bank of Boston

Description

Outcome

“In 1989, Bank of Boston decided to establish First Community Bank to serve the needs of undeserved urban minorities by creating a specific brand and developing strong ties with the community and grew up to 25 branches with 5 million dollars earnings. ”

Key methods

Building a strong brand identity inside and outside the bank

- Choosing a well known Community member to be the CEO of the bank to signal things are different
- Asking for similar titles as in the regular bank
- Pushing inside the bank to get similar means and resources
- Displaying that the different brand identity comes from a willingness to work for the LMI community

Creating loyal customers and ties in the community

- Showing business with LMI communities can be profitable and fighting the assumption that this is social support
- Sharing values with customers to bring them to come to the branch

Take aways

Seeing how quickly such a structure can disappear

- Complete disappearance of the structure when Bank of America bought Bank of Boston
- Lack of use of the experience gained in the process apart from individual

Source: Harvard Business School Case & Public Sources

3.6 A French Initiative to make banking easier: Compte Nickel (Spick & Span Account)⁸

With over 99% of fully banked customers, the French banking market is by no means comparable to the US banking system. However, realizing that online banking constitutes an alternative to traditional banking for only a small portion of the population, entrepreneurs have decided to create a low-cost banking structure relying on the tobacconist network. For 20 euros (28 dollars) per year and with only five minutes' worth of paperwork, you get access to a bank account, a debit card, ATM withdrawals and deposits. Moreover, you can access your bank account from any of the 27.000 tobacconists located in France and withdraw money through them. Their goal is to reach 100.000 accounts by the end of the year.

Bypassing the traditional networks of banking constitutes one of the current trends followed both by the web entrepreneurs and the retail networks. Therefore seeing an opportunity in a declining large network of tobacco sellers could raise ideas in for the American analysis. In particular, partnering with local coffee shops or any other visible widely spread network in the community could constitute a more viable and cheaper option than building a *de novo* network.

When moving forward with the concrete realization of the project on top of the traditional branches, looking for unusual, unlikely retail places might be a way to build a large network at a very low cost. Moreover, bringing along small businesses not only as partners but also as sales' points of the banking products can change the neighborhood's perspective on the project. Senator Warren's proposal to use USPS office relies on the same

⁸ La banque ? C'est au tabac du coin, Reuters, October 16th, 2013
Website: Financière des Paiements Électroniques, accessed January 2014

basis that existing networks of retail shops should be used to create proximity with the customer at a low cost. USPS banking would be a way to keep a local network and find a use for US postal office.

Case study: Compte Nickel, using the existing resources to build a network

Description

Outcome

“Building a bank and a brand using the existing retail network of tobacco sellers, which are looking for new customers and already have an important presence in remote areas, to be able to find new ways of banking. “

Key methods

Swift and easy bank account creation

- Being able to set up a new bank account and get a debit card and a bank account number in 5 minutes
- Having a clear and cheap fee structure: Opening the account for less than 30 dollars (20 euros) and fees per operation presented up front

Differentiating a bank account for small expenses from the usual bank account

- An account build for day to day operations, small withdrawals and debit card payments
- Allowing small savings to happen one dollar at a time by making it convenient.

Take aways

Using an existing retail network

- Building form the existing UPS service or existing shops to show there is a local implantation
- Bringing small business to put skin in the game – 5% participation for tobacco shops – to incentivize them to build a common client base
- Combining online banking with a human face

Source: Public sources



Chapter 4. Issues with scaling up and finding an exit strategy

Emerging Markets when describing their current strategy put a strong focus on the exit strategy. Not seeing itself as a bank, my client wants to consider all options to be able to sell the newly created entity. This shall bring me to consider the ideal size to reach for the entity as well as considerations linked to the sale.

4.1 Economics of scale in banking: an ideal size?

Intuitive analysis brought many to consider economies of scale were having a clear impact on the banking sector, especially given the current trend to building online infrastructure. However, no clear consensus really exists on the subject. In 2010, Alan Greenspan, based on research by the Federal Reserve, "has been unable to find economies of scale beyond a modest-sized institution and believes cost savings are realized mainly through bank size increases up to deposit levels of approximately \$500 million." Steven Pilloff, from the Fed as well concludes that economies of scale disappear at asset levels around \$10-25 billion.

Such discrepancies in the analysis come from the source of these economies of scale. Indeed, the major part of these economies come from the ability to raise capital at lower interest rates dropping from 62 percent for banks with assets between \$0.5 and \$ 1.0 billion to 57 percent for banks with assets in the range of \$1 billion to upwards of \$10 billion. The other source of economies relies in contractual agreements with service providing firms especially for credit and debit cards where the fee-based cost is not disclosed.

Exhibit 15. Economies of scale for banks over \$20 billion compared to smaller banks
Source: Clearing House study

1. Retail banking ²	Online bill payment	\$0 - 1
	Other retail (e.g., ATM, mobile banking, mortgage servicing)	\$3 - 4
	Subtotal	\$3 - 5
2. Payments ²	Credit	\$2 - 3
	Debit	\$1 - 2
	Check	\$1 - 2
	ACH	\$0 - 1
	Wire transfer	\$0 - 1
	Other payments (e.g., custody-related, acquiring)	\$6 - 10
	Subtotal	\$10 - 20
3. Commercial banking ²	Other commercial banking (e.g., treasury services platforms)	\$2 - 5
	Subtotal	\$2 - 5
4. Capital markets	Trade processing	\$5 - 15
	Subtotal	\$5 - 15
Total		\$20 - 45

The Clearing House Association presented a study displaying economies of scale having a strong effect on small and medium banks but diminishing marginal returns. These studies push towards building a \$500 million deposits structure. Reaching such a size by expanding from scratch in Low and Moderate Income Neighborhoods would entail opening a significant number of branches.

Small networks of 50 to 100 branches have lower bank-average deposits per branch and roughly equal volumes of small business loans per branch, but no reduction in net deposit costs, relative to larger branch networks. The efficiency of banking follows a flat U-shape with medium-sized banks being slightly more scale efficient than either large or small banks. The average cost was minimized somewhere between about \$75 million and \$300 million in assets.

4.2 Reaching a viable economic model

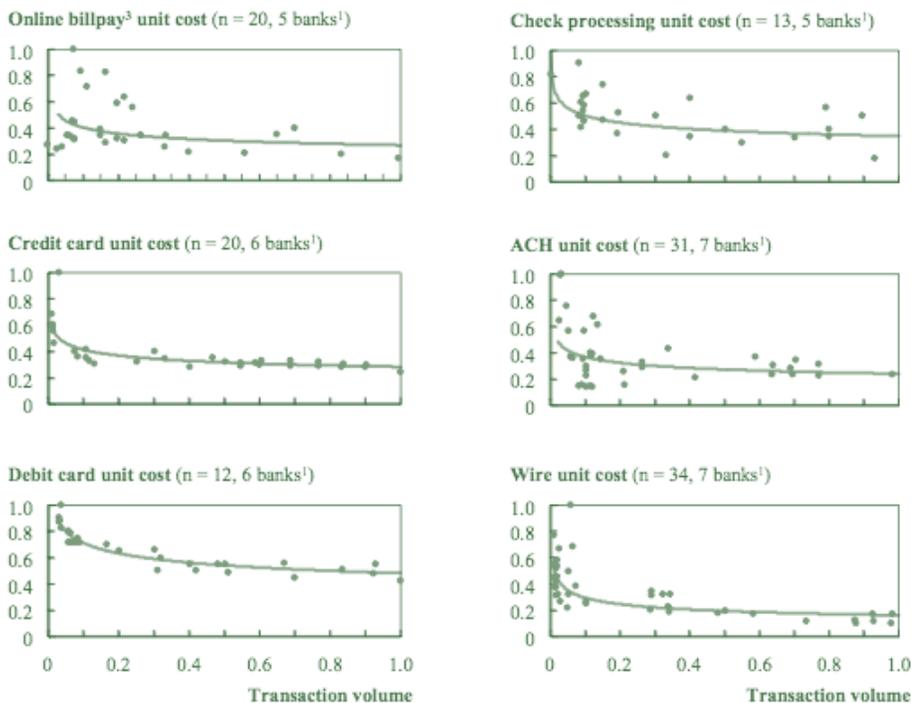


Exhibit 16. Decreasing cost per unit depending on the size of the bank

Source: Clearing House study

The focus of this analysis, according to the memorandum of understanding between my client and myself reduces the scope of the project to the regulatory perspective on the entry and exit strategies. Given the project considered, my interviews with various stakeholders bring me to say a word about the economic model of the newly created institution.

Through the interview process, I gathered that banks would be willing to create branches in LMI neighborhoods. Though, these branches would have to operate on a very different business model. In these areas, making profit on credit is not possible. The credit worthiness of inhabitants does not allow loans to be made. Even bringing people to start saving is a challenge.

When wondering about the business model, one should take into consideration the usury law. Indeed, the maximum rates financial institutions can charge despite the bad credit should greatly influence the business model.

The following questions need to be taken into account. How is it possible to create a business model? Would the bank be sustainable without getting subsidies? Do banks still care about their CRA grades after the crisis? Interagency proposed diversity policies might increase the interest of large banks in purchasing a viable community development bank : six federal financial regulatory agencies announced December 19, 2013, that they are extending the comment period until February 7, 2014, for their proposed policy statement for assessing diversity policies and practices of the institutions they regulate.

4.3 Antitrust issues and limitations.

When considering the sale of the bank, the main issues Emerging Markets could face are related to concentration. They are regulated when it comes to mergers or industry wide since the Celler-Kefauver Act of 1950.

The Comptroller of the Currency evaluates branch applications by national banks. Since national banks face the same branching restrictions as state banks, any state limitations on branch locations, number of branches, and capital requirements bind the Comptroller. However, out of 600 bank mergers, only around one is challenged at a federal level. For all but large depositors and borrowers, convenience and high transportation costs led most

bank customers to confer their patronage on local community banks, "small businessmen especially are confined to their locality for the satisfaction of their credit needs." Therefore, if the bank takes an important role in the neighborhood there might be challenges.

The Bank Merger Act of 1960 and its 1966 amendments require a bank to obtain prior approval before merging, consolidating with, or acquiring assets and assuming liabilities of another bank. The federal banking agency reviewing the merger request is one of the agencies that would supervise the resulting bank. Under this standard, agencies cannot approve:

- ⇒ any proposed merger transaction which would result in a monopoly, or which would attempt to monopolize the business of banking even locally in the United States;
- ⇒ any other proposed merger transaction whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade, unless it finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

The guidelines try to gauge the extent of competition in a market through use of the Herfindahl-Hirschman Index. Overall, given the size of the market this issue should remain manageable.

4.4 Varying regulatory constraints on the exit strategy

Overall, the main regulatory constraint, as described by Allen Bromberger, in the Stanford Social Innovation Review, is the lack of a regulatory hybrid, operating between the for-profit and the non-profit review, which does not enable the bank to be spun off.

4.4.1 *Not selling the created entity*

At the end of the day, the goal is to be able to sell the bank, in accordance with the neighborhood's desires. Finding a way to articulate those wills does not constitute an easy task for Emerging Markets on its own and can be done in particular through having local people on an advisory board.

Therefore, from the beginning local people would be integrated in the development of the bank. From a business perspective, though, the value of such a bank and the willingness to buy by middle or large banking institutions should be analyzed.

Indeed, if the rationale for Emerging Markets to sell the bank seems clear in order to show that the strategy has been led from the beginning to an end in a successful way, this strategy might not end up being an optimal one. Moreover, once the bank launched, several million dollars will have been raised and engaged in the development process. The process of creating the entity might not be worth such a quick exit and developing a brand and a network could enable a better return on investment. On top of this, in order to show the business model is successful, running it over the long period should be more effective.

Interacting with the neighborhood and regulators to ensure the long term sustainability of the model

Sale to a megabank advantages

- Ability for Emerging Markets to make a profit
- Shows the interest of megabanks for LMI communities when they are profitable
- Allows Emerging Market not to become mainly a bank
- Brings a major, respected brand to a neighborhood to show that it has grown
- Creates typical product range for the customers
- Ensures the creation of a large network and could allow the continuity of the mission
- Brings local hires to work for a respected brand and corporation

Sale to a megabank drawbacks

- Sustainability of the model questionable:
 - Will the bank chose to shift back to regular operations?
 - Will the culture be kept in the large structure?
- Makes the credit union option non viable while acquiring an existing small credit union could have been an easy option
- Does it really represent the will of the neighborhood? Will the trust remain?
- Are banks still interested in CRA requirements?
- Regulatory issues:
 - Antitrust concerns
 - Finding a sales price

4.4.2 Establishing a new bank

Compared to the entry, the sale of a bank, even if a formal approval from the OCC is needed does not entail significant issues. Regulation of bank expansion opportunities has generated much controversy. By giving banks an opportunity to enter new markets and attract additional customers, liberal expansion policies can promote greater competition. Such policies also enable banks to compete more directly with other types of institutions and to offer a broader range of services as their customer base becomes larger. At the same time, however, some people fear that expansion by larger institutions could further concentrate banking industry resources and risks and create financial monopolies. Regulations relating to where banks can locate and expand have varied markedly from one state to another.

Obviously, the bank should have been diversified enough before the sale to avoid going through the same scenario as Sharebank of Chicago. Started in the 1970s, the lack of diversification brought the bank to failure. More importantly, the sale of a bank of this type should be accompanied by guarantee that the structure will be preserved. In particular, striking a deal to sell the bank to both the retail and community divisions of the bank could allow preserving the structure.

4.4.3 Creating a new Credit Union

Compared to the creation of a bank, the creation of a credit union does not entail significant issues. However, the exit strategy requires transforming the entity into a bank. Going through this process can happen through a two-step process. The credit union must first be transformed into a trust. This trust would then create a shareholder firm. Through a series of controls you can get a charter easily, especially if it is a state charter.

Moreover, such a change requires the approval of the majority of stakeholders. The merger benefits only if the improvements can result in more deposits and more attractive lending rates offered to members.

In 2003, for the first time a Credit Union tried the opposite by attempting to buy a bank. The University of Iowa Community Credit Union (UICCU) was hoping to buy Hawkeye State Bank UICCU, a \$300 million deposit institution, planned to merge all of Hawkeye State Bank into UICCU's operations, including \$97 million in deposits. However, UICCU's acquisition of Hawkeye would have automatically converted a tax-paying bank into an untaxed credit union. This brought on intense lobbying, preventing the merger from happening.

Overall, given the major difference between the two types of structures, not the smallest one being their fiscal status, such an evolution seems a tough move to make.

4.4.4 Partnering with an existing financial institution

If the new entity is created through a partnership with a major banking entity, the exit strategy shall be formalized in the contract signed at the beginning.

4.4.5 Recapitalizing an existing bank

If the bank is meant to grow separately and to reach a significant size to set an example for large banks and to continue operating as a separate entity, the question of the exit strategy is not relevant. If the idea is to sell the bank, either the full bank shall be sold in which case the case has been analyzed in part 5.3.1. If the choice is made to sell only the LMI branches and to keep the other branches to avoid having to charter a new bank, the sale might be blocked for non-compliance with regulatory issues. The CRA requirements for the entity without the LMI branches would indeed not be met. Selling only a few branches out of the entire bank seems like a more complex idea.



Conclusions & Recommendations

Assessment of all options: market entry, operations & exit

	Entering the market			Day to day operations		Exiting the market		
	Time	Cost	% of success	Complexity to operate	Time to establish profit	Regulatory complexity	Help to the community	% of success
Chartering a new federal bank	Negative	Negative	Negative	Neutral	Negative	Positive	Neutral	Positive
Chartering a new state bank	Negative	Negative	Neutral	Neutral	Negative	Positive	Neutral	Positive
Recapitalizing a failing bank	Neutral	Positive	Positive	Neutral	Neutral	Positive	Neutral	Positive
Buying an underperforming bank	Neutral	Neutral	Positive	Neutral	Positive	Positive	Neutral	Positive
Creating a new Credit Union	Positive	Positive	Negative	Positive	Negative	Negative	Neutral	Negative
Partnering with a financial institution	Positive	Positive	Neutral	Negative	Neutral	Positive	Neutral	Positive
Not selling the bank	Grey					Positive	Neutral	Positive

■ Positive
 ■ Neutral
 ■ Negative

Key recommendations

1. **Determine an existing undercapitalised bank** in the chosen LMI neighbourhood

2. **Raise the necessary capital to buy** or recapitalize the defined bank

3. **Get the approval by the FDIC** to inject the necessary capital

4. **Expand the number of branches** to have the branches in targeted LMI areas

5. **Reach economies of scale** in the bank

6. **Create a large network** of branches to cover the entire area

7. **Test new products** and use the branches to investigate willingness to change

8. **Understand** the appetite of the neighbourhood to reach an **exit strategy**

9. Depending on the outcome of point 8: **Find a potential investor** by convincing a megabank to enter this market

10. **Determine the successful** parts of the process and whether large banks are more interested in LMI areas.

Appendix

List of Interviews conducted

- Andrew Calamare, Former Massachusetts banking Commissioner
- Ines Hernandez, Civica Consulting
- Annie Lord, Citibank Community Development
- Cam Fine, Independent Community Bankers of America
- Charlie Wilcox, formerly CheckSpring Bank
- Jim Segel, Former special advisor to Barney Frank
- Sophia Heller, Abt Consulting
- Eugene Foley, President & CEO HUECU
- FM Scherer, Harvard Kennedy School
- Cathie Mahon, Community Development Credit Unions
- Robert Glauber, Harvard Kennedy School
- Tina Castro, Emerging Markets
- Mehmet Berker, Emerging Markets
- Connie Dunham, Office of the Comptroller of the Currency
- Karen Bellesi, Office of the Comptroller of the Currency
- Monica Martinez, Office of the Comptroller of the Currency
- Sol Carbonell, Boston Federal Reserve
- Brian Clarke, Boston Federal Reserve
- Mauricio, Kaili, Boston Federal Reserve
- Ana Patricia Muñoz, Boston Federal Reserve
- Edward J Kane, Boston College
- Richard Wayne, North-Eastern Bank
- John Caskey, Swarthmore College
- Rachael Doff, Operation HOPE
- Lance Triggs, Operation HOPE
- Ira Jackson, ex- Bank of Boston

List of required documents to file a charter application

The names and addresses of all of the organizers and the holding company (if there is one)

The names of the proposed directors, the CEO, the senior loan officer and the cashier

The name and address of the bank

The number of shares, par value, and share prices for each share that will be sold

The total amount of common stock, as well as surplus and reserves for operating expenses

The number of shares of bank stock that each organizer plans to purchase

Where the money for purchasing those shares is coming from

Names and addresses of proposed investors who will own more than 10 percent of the bank's total stock

A completed charter application (form DBF-C-10 in Florida) for each organizer, proposed director and principal stockholder, CEO, senior loan officer, cashier, and all other executive officers

Pro forma financial statements

An addendum to financial statements that explains assumptions and strategies to achieve the projected market share for each type of product or service

Assumptions used to calculate earnings

Everyone involved in the purchase or lease of the proposed bank building

Any business or personal affiliations between the bank property seller or lessor and any of the organizers, other bank officers, and shareholders who will own 10 percent or more of the bank stock

Copies of location feasibility studies and local zoning laws

Copies of results of any environmental tests conducted at the bank's location

Projected organization costs (this includes filing and regulatory fees, professional and consulting fees, payroll and payroll taxes, rent, capital-raising costs, printing, postage, telephone and office supplies)

Proposed salaries and benefits for bank officers

Copies of any employment contracts that may be given to officers

Copies of proposed bank policies

Bibliography

AGENCIES, DIVISION OF BANKS AND LOAN.
"Checkcashing regulations MA." 1995.

Agresti, Liz Cohen and Rosalia. "Expanding the CRA to All Financial Institutions ."

Allen N. Berger, Asli Demirgüç-Kunt, Ross Levine and Joseph G. Haubrich. "Bank Concentration and Competition: An Evolution in the Making ." *Journal of Money, Credit and Banking*, Vol. 36, No. 3, , Conference Sponsored by the Federal Reserve Bank of Cleveland May 21-23, 2003 (Jun., 2004) .

ANDH. "THE STATE OF BANK REINVESTMENT IN NEW YORK CITY." 2011.

Armen Hovakimian, Edward Kane, Luc Laeven. "Variation in Systemic Risk at US Banks During 1974-2010 ." May 29, 2012 .

Banks, Comptroller of the Currency Administrator of National. "CRA Decision #155 April 2013 ." March 5, 2013 .

Banks, Comptroller of the Currency Administrator of National. "DECISION OF THE OFFICE OF THE COMPTROLLER OF THE CURRENCY ON THE APPLICATIONS TO COMBINE RIGGS BANK NATIONAL ASSOCIATION, MCLEAN, VIRGINIA, WITH PNC BANK, NATIONAL ASSOCIATION, PITTSBURGH, PENNSYLVANIA ." April 25, 2005 .

Banks, Comptroller of the Currency Administrator of National. "National Banks and The Dual Banking System ." 2003.

Barr. "Credit Where It Counts."

"Becoming a National Bank ." OCC, 2011.

BERGER, ALLEN N. *Further Evidence on the Link between Finance and Growth: An International Analysis of Community Banking and Economic Performance* . Journal of Financial Services Research 25:2/3 169±202 , 2004.

Berger, Allen N. *The Economic Effects of Technological Progress: Evidence from the Banking Industry* . Journal of Money, Credit and Banking, Vol. 35, No. 2 (Apr., 2003), pp. 141-176 , 2003.

BERKMAN, EMILY. "MICROLOANS AS A COMMUNITY REINVESTMENT ACT COMPLIANCE STRATEGY ." J.D. 2006, New York University School of Law .

"Branches and Relocations ." OCC licencing manuel, 2009.

Brand, The Financial. "Bankers Conspire Against Credit Union In Brutal Turf War." 2012.

California, State of. *California Departement of Business Oversight*. 2014. <http://www.dbo.ca.gov/>.

Caskey, John. "Beyond cash and carry: Financial Services, financial and low income communities." 1997.

Caskey, John. *Fringe Banking and the Rise of Payday Lending* . Bolton and Rosenthal , 2005.

Caskey, John P. *Fringe banking : check-cashing outlets, pawnshops, and the poor*. New York : Russell Sage Foundation, 1966.

Center for Community Development Investments Federal Reserve Bank of San Francisco . "CRA INVESTMENT HANDBOOK ." March 2010.

"Change in Bank Control ." OCC licencing manuel, 2011.

"Charters ." OCC licencing manuel, 2011.

"Corporate Decision #2011-03 ." Comptroller of the Currency Administrator of National Banks , March 2011 .

"Credit Union Applicaition Manuel." Atlanta, DEPARTMENT OF BANKING AND FINANCE , 2013.

CSBS Directory of State Banking Departments .

<http://www.csbs.org/about/what/pages/directory.aspx#> .
Currency, Thomas J. Curry Comptroller of the. "National Bankers Association Atlanta, Georgia October 3, 2013 ."

Department, California Banking. "FREQUENTLY ASKED QUESTIONS - Questions About Licensing." Donald J. Smith, Thomas F. Cargill and Robert A. Meyer. *An Economic Theory of a Credit Union* . The Journal of Finance, Vol. 36, No. 2, Papers and Proceedings of the Thirty Ninth , 1981.

Dugger, Harold Black and Robert H. *Credit Union Structure, Growth and Regulatory Problems* . The Journal of Finance, Vol. 36, No. 2, Papers and Proceedings of the Thirty Ninth Annual Meeting American Finance Association, Denver, September 5-7, 1980 (May, 1981), pp. 529-538 , 1981.

Dunham, Constance. "The role of Banks and Non banks in service low-and-moderate income communities." Office of the Comptroller of the Currency.
edited by Patrick Bolton, Howard Rosenthal. "Credit Markets for the Poor ."

"Failure Acquisitions Expansionary Activities ." OCC licencing manuel, 1998.

"Federal Branches and Agencies Entry/Expansionary Activities/Other Changes and Activities ." OCC licencing manuel, 1998.

Finance, Department of Banking and. "APPLICATION AND INSTRUCTIONS - Cashing Checks, Drafts or Money Orders for Consideration APPLICATION FOR CHECK CASHING LICENSE ." May 2013.

Funding, Wells Fargo. "Getting to Know CRA ."

Gordon V. Karels, Christine A. McClatchey. "Deposit insurance and risk-taking behavior in the credit union industry ." *Journal of Banking & Finance* 23 (1999) 105-134 , 1999.

Gruenstein, Debbie. "Using the Community Reinvestment Act ." *Financing Strategy Brief*, April 2002.

Gull, Marshall Schraibman and Zuhaib. "The de novo drought ." *SNL*, 2013.

Health Group, Pew. "Low-Income Los Angeles Households Drift Further from the Financial Mainstream." 2011.

Hirtle, Beverly J. *The impact of network size on bank branch performance* . Staff Report, Federal Reserve Bank of New York, 2005.

Hopkins, Elwood. "Sharing the Risk: Incubating Inner-City Bank Branches for Acquisition by Major Financial Institutions ." August 2013.

Humphrey, Allen N. Berger David B. *Bank Scale Economies, Mergers, Concentration, and Efficiency: The U.S. Experience* . Financial Institutions Center, Wharton School, 2010.

Inc, Emergig Markets. "UNDERBANKED NEIGHBORHOOD MARKET STUDY: LIBERTY CITY, MIAMI ." August 2012.

"Investment in Subsidiaries and Equities ." OCC licencing manuel, 2008.

Jacobs, Donald P. "The Interaction Effects of Restrictions on Branching and Other Bank Regulations ." *The Journal of Finance, Vol. 20, No. 2, Papers and Proceedings of the Twenty-Third* , Annual Meeting of the American Finance Association, Chicago, Illinois, December 28-30, 1964 (May, 1965) .

James Barth, Priscilla Hamilton & Donald Markwardt. *When banks are few, payday lenders thrive*. The Milken Institute review, First Quarter 2014.

Jim Kinney, The Republican. "Check cashing shops expensive, banks better, according to Massachusetts Division of Banks study ." June 24, 2013.

KANE, ARMEN HOVAKIMIAN and EDWARD J. "Effectiveness of Capital Regulation at U.S. Commercial Banks, 1985 to 1994 ." *THE JOURNAL OF FINANCE* • VOL. LV, NO. 1 • FEBRUARY 2000 , 2000.

Kane, Edward. "INCENTIVES FOR BANKING MEGAMERGERS: WHAT MOTIVES MIGHT REGULATORS INFER FROM EVENT-STUDY EVIDENCE? ." Boston College, 2000.

Keldon J. Bauer, Linda L. Miles, Takeshi Nishikawa. *The effect of mergers on credit union performance* . *Journal of Banking & Finance* 33 (2009) 2267-2274 , 2009.

Kelly, Marjorie. *Unintended Consequences: New Regulations Threaten Community Banks*. CSRWire, 2012.

Kushmeider, Christine E. Blair and Rose M. "Challenges to the Dual Banking System: The Funding of Bank Supervision ." *FDIC BANKING REVIEW* , 2006.

Laderman, Liz. "Has the CRA Increased Lending for Low-Income Home Purchases? ." *FRBSF Economic Letter* , 2004.

Lee, Christopher R. Berry and Sarah L. "THE COMMUNITY REINVESTMENT ACT: A REGRESSION DISCONTINUITY ANALYSIS ." *HARRIS SCHOOL WORKING PAPER* , SERIES 07.04 .

Lee, Yan Y. "The Color of Money Revisited: Are Banking Regulations Effective In Reducing Racial Disparities in Home Mortgage Lending to Neighborhoods? ." *Federal Deposit Insurance Corporation* , December 30, 2005 .

Levitin, Joshua Goodman & Adam. "Bankruptcy Law and The Cost of Credit: The Impact of Cramdown on Mortgage Interest Rates ." *HKS Faculty Research Working Paper Series* , August 2012.

Mabanta, Matt Fellowes and Mia. "Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth-Building Potential ." *A RESEARCH BRIEF FOR THE METROPOLITAN POLICY PROGRAM AT BROOKINGS* , 2008.

Manuel, OCC licencing. "Capital and Dividends ." 2007.

Marsico, Richard D. *ENFORCING THE COMMUNITY REINVESTMENT ACT: AN ADVOCATE'S GUIDE TO MAKING THE CRA WORK FOR COMMUNITIES* . New York Law School *Journal of Human Rights* (2001).

McCoy, Kathleen C. Engel* and Patricia A. "The CRA Implications of Predatory Lending ."

McKillop, J. Colin Glass & Donal G. *The impact of differing operating environments on US Credit Union Performance, 1993-2001* . *Applied Financial Economics*, 16:17, 1285-1300 , 2006.

Moore, David B. *ANALYZING AND INVESTING IN COMMUNITY BANK STOCKS* . Icarus Publishing, 2005.

Nakamura, Leonard. "Small borrowers and the survival of the small banks." *Federal Reserve of Philadelphia*, November 1994.

NCRC. "CRA modernisation talking points."

Newberger, Maude Toussaint-Comeau and Robin G. "Financial Infrastructure and Small Business Funding in Low- and Moderate-Income Neighborhoods in Detroit ." COMMUNITY DEVELOPMENT AND POLICY STUDIES FEDERAL RESERVE BANK OF CHICAGO , 2012.

OCC licencing, manuel. "Investment in Bank Premises." 2005.

Oversight, Jan Lynn Owen Commissioner of Business. "Ensuring a Fair and Secure Financial Services Marketplace for all Californians ." 2013.

Pahl, Cynthia. "A Compilation of State Mortgage Broker Laws and Regulations, 1996–2006 ." FEDERAL RESERVE BANK OF MINNEAPOLIS COMMUNITY AFFAIRS REPORT , October 2007 .

Patrick, Rebecca. "DUAL BANKING SYSTEM ." Senate Research Office, 2011.

Peterson, Larry D. Wall and Pamela P. "Banks' Responses to Binding Regulatory Capital Requirements ." Federal Reserve Bank of Atlanta , 1996.

Pew, Health Group. "Unbanked by choice: A look at how low-income Los Angeles households manage the money they earn ." 2010.

Phillips, Robert DeYoung and Ronnie J. "Payday Loan Pricing." Federal Reserve of Kansas, 2009.

PricewaterhouseCoopers. "Regulatory Guide for Foreign Banks in the United States: 2005–2006 ." 2005-2006.

Raskin, Sarah Bloom. "Focusing on Low- and Moderate-Income Working Americans ." Member Board of Governors of the Federal Reserve System , March 22, 2013 .

Rauch, Christian. "Bank Fragility and the Financial Crisis: Evidence from the US Dual Banking System ." 2009.

regulations, Massachusetts banking. "209 CMR 45.00: THE LICENSING AND REGULATION OF CHECK CASHERS ."

Robert M. McGill, Chairman & CEO. "Be the Change! COMMUNITY IMPACT REPORT ." Neighborhood National Bank, 2010.

Runkle, John H. Boyd and David E. *Size and performance of banking firms : Testing the predictions of theory* . *Journal of Monetary Economics* 31 (1993) 47-67. North-Holland , 1993.

Santos, Joao A.C. *Bank capital and equity investment regulation*. *Journal of Banking & Finance* 23 (1999) 1095±1120 , 1999.

Scherer, F.M. "Financial Mergers and Their Consequences ." *HKS Faculty Research Working Paper Series* , June 2013.

SCHWARTZ, NELSON D. "Boston Fed's Latest Role: Community Organizer." *New York Times*, January 2014.

Segal, Douglas D. Evanoff and Lewis M. "CRA and fair lending regulations: Resulting trends in mortgage lending ." FEDERAL RESERVE BANK OF CHICAGO .

Smith, David A. "CRA Goes Global: A Good Idea in the United States Could Use a Makeover and a Bigger Audience ." *Community Development INVESTMENT REVIEW* , FEDERAL RESERVE BANK OF SAN FRANCISCO , Affordable Housing Institute , 2011.

Smith, David A. "State of the Market 36: CRA goes global ." *Recap real estate advisors*, March 2011.

Spong, Kenneth. "BANKING REGULATION Its Purposes, Implementation, and Effects ." *Division of Supervision and Risk Management Federal Reserve Bank of Kansas City* , 2000.

Sumit Agarwal, Efraim Benmelech, Nittai Bergman & Amit Seru. "Did the Community Reinvestment Act (CRA) Lead to Risky Lending? ." October 2012.

Tellalian, Elwood Hopkins and Daniel. "How Community Development Departments Are Rediscovering Communities ." *Emerging Markets*, 2006.

Treasury, US Department of. "Comparing Credit Unions With Other Depository Institutions ." 2001.

Trust, Pew Charitable. "Who Borrows, Where They Borrow, and Why ." 2010.

Vision, Geodata. "Four Steps to Successful CRA Performance Ratings ."

Vivian Pacheco Research Associate, Community Development. "Going "De Novo": Tapping into Emerging Markets at the Branch Level ." *Federal Reserve Bank of San Francisco* , May 2008.

Wheelock, Thomas A. Garrett Gary A. Wagner and David C. "A Spatial Analysis of State Banking Regulation ." *FEDERAL RESERVE BANK OF ST. LOUIS* , Working Paper 2003-044C , December 2003 Revised February 2005 .

Retsinas, N. P., & Belsky, E. S. (2005). *Building Assets, Building Credit : Creating Wealth in Low-Income Communities*. Washington, D.C.: Brookings Institution Press.

Schwarzenegger, A., & Clinton, W. J. (January 24, 2008). *Beyond Payday Loans*, *The Wall Street Journal*, p. A17.

Seidman, E., Hababou, M., & Kramer, J. (2005). A Financial Services Survey of Low- and Moderate- Income Households. Chicago: The Center for Financial Services Innovation.

Sherraden, M. W. (2005). Inclusion in the American Dream : Assets, Poverty, and Public Policy. New York: Oxford University Press.

Stegman, M. A. (1999). Savings for the Poor : The Hidden Benefits of Electronic Banking. Washington, D.C.: Brookings Institution Press.

Stuhldreher, A., & Tescher, J. (2005). Breaking the Savings Barrier: How the Federal Government Can Build an Inclusive Financial System. Chicago: The Center for Financial Services Innovation.

Washington, E. (2006). The Impact of Banking and Fringe Banking Regulation on the Number of Unbanked Americans. *Journal of Human Resources*, 41(1), 106-137.

Greene, W. H., Rhine, S. L. W., & Toussaint-Comeau, M. (2003). The Importance of Check-Cashing Businesses to the Unbanked: Racial/Ethnic Differences. Chicago: Federal Reserve Bank of Chicago.

Hawkins, J. (2011). Regulating on the Fringe: Reexamining the Link Between Fringe Banking and Financial Distress. *Indiana Law Journal*, 86(4), 1361-1408.

Hogarth, J., & O'Donnell, K. (1999). Banking Relationships of Lower-Income Families and the Government Trend Toward Electronic Payment. *Federal Reserve Bulletin*, 85, 707-725.

Jacob, K. (2006). Highlights from the Inaugural Underbanked Financial Services Forum. Chicago: The Center for Financial Services Innovation.
http://www.atmmarketplace.com/images/Underbanked_forum_white_paper_ATM.pdf

 **EMERGING MARKETS INC**



Gatien Bon

Master in Public Policy 2014
Harvard Kennedy School