

Presentation to the Statewide Conference
on Financial Literacy and Asset Building

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I appreciate the opportunity to be with you today. My thanks to Treasurer Moore and the organizers of this conference for allowing me to participate. I would like to discuss with you an important aspect of financial citizenship in the modern economy: access to a bank account.

In the aftermath of Hurricane Katrina, thousands of residents of New Orleans and the Gulf Coast – those who were lucky enough to be evacuated – faced awful hardships and privations. Among them was the denial of access to their financial assets. Those with bank accounts were temporarily denied access to them; those without were removed from their traditional sources of finance in the alternative financial system or the informal economy. For evacuees with bank accounts, the lifeline to our financial system has been substantially repaired and access to their money is a problem of declining urgency. For those without accounts, the problem of access to banking services has just changed address. They are part of a substantial minority of our citizens for whom access to financial services is a daily and expensive challenge.

I believe that financial citizenship – the ability to participate fully in our economy – should include access to the banking system. It has been estimated that ten percent of the families in this country – and more than twenty percent of low income families – are unbanked. In addition, an untold number of people with bank accounts are “underbanked,” getting a substantial part of their financial services from non-bank financial institutions, where they pay a high price. These “fringe” financial services can be abusive, they don’t help people build credit, and they can’t help them build assets. With the support of the State Banking Commission, the banking industry and a number of nonprofit organizations, my colleagues and I have sought to understand this issue better and to propose some solutions.

Our efforts began with support of VITA (Volunteer Income Tax Assistance) centers, opened with the help of the Center for Community Self-Help and the Just Money Project, at a number of locations in North Carolina. The purpose of this activity was to help low income working people with children obtain tax refunds, including refunds resulting from the federal earned income tax credit (“EITC”), that would be the basis for establishment of bank accounts. According to EITC-Carolinas, over 700,000 EITC tax returns were filed in North Carolina in 2003. That was 20 percent of all returns filed in this state, covering some 1.6 million people including children. Not insignificant.

In addition to our VITA activity, the Banking Commission asked the Center for Community Capitalism at UNC-CH to study the attitudes toward financial services of VITA clients and to trace the actual spending and saving activities of a sample of those persons. The Center has done that work and I am happy to announce that we are today releasing its study based on this research. The study is available in full text at the Office of Commissioner of Banks and Center for Community Capitalism web sites, www.nccob.org and www.ccc.unc.edu, and I hope that it has a wide readership. The study includes the following findings of particular interest:

- VITA clients exhibit a high commitment to saving. Nearly all of the VITA clients surveyed indicated that saving was important to them. They save for financial security and retirement, and to invest in education or business or a home.
- Many VITA clients manage to save regularly. Despite their low incomes, nearly half say they save regularly from their paycheck or during times when they had extra income.
- VITA clients experience mixed success with saving their refunds. Fifty five percent of respondents who planned to save their refund had spent all of it within six months. Still, twenty-six percent of all those who received a refund managed to save some, while another 10 percent invested in education or home improvement.
- Having a bank account is important. Those with bank accounts were much more likely to be savers. This may sound obvious, but it shouldn't surprise us that access to banking services goes hand in hand with achieving financial goals.

The Center's research is a step forward in gaining an understanding of the issue of conferring financial citizenship on low wage working people. And one bright spot for our state is that low income residents here are two to three times more likely to have a checking or savings account than those in New York City or Los Angeles.

So how do we go forward from here? Let me suggest a few ideas that I hope interested parties will consider as we move forward:

- Addressing this issue successfully will require the coordinated efforts of government, the private sector (employers of low wage workers as well as banks), non-profit and community organizations and, most importantly, the working poor themselves.
- Technology can and should be used to lower the cost of financial services to the working poor.
- Effective financial citizenship, like effective political citizenship, depends upon a good education. Financial literacy is needed by all citizens; it is a must for the working poor.
- Effective financial citizenship for the working poor has to be based in the values through which prior generations of Americans have worked their way out of poverty: thrift, self discipline and the willingness to forego current consumption in the interest of self-betterment.

I believe that providing low wage workers with access to the banking system is a social, political and moral imperative. Government and the private sector can and should work

together to make such access easier; the rest must be done by the low wage workers themselves, supported by their families, communities and by the governmental and non-profit agencies that affect them. These working people face substantial challenges in bettering themselves. Conferring financial citizenship on them will not solve their problems, but it can and should provide them the tools to do so.

Thank you very much for your attention.



Banking and Asset Building: Transforming Refunds Into Assets

Joseph A. Smith, NC Commissioner of Banks

Report on Research by
The Center for Community Capitalism
Kenan Institute, University of North Carolina

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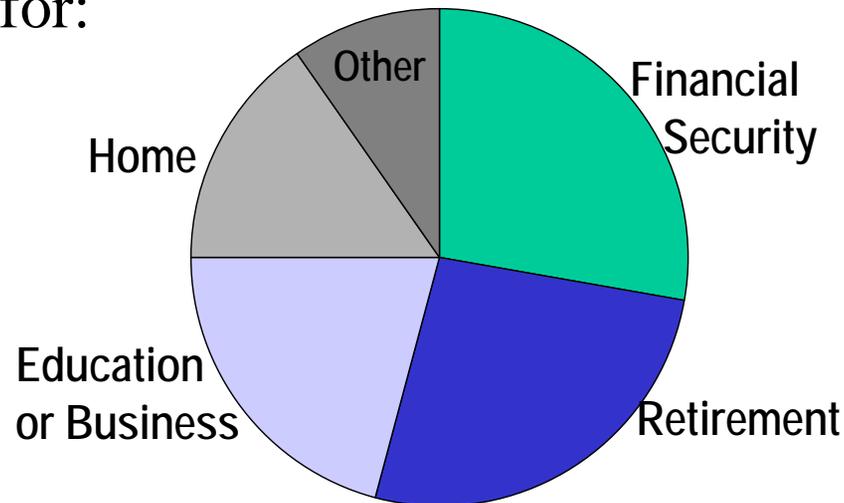
The Tax Refund Opportunity

- EITC: 20% of NC Taxpayers (approx. \$1.5 billion).
- 2-year VITA pilot with Just Money & Self-Help:
 - Greenville, Henderson, Raleigh, Far West, Gastonia.
 - 1,400 returns, \$1.3 million in refunds.
- UNC Survey of VITA Clients (2004)
 - 20% unbanked, 35% no checking account, half use alternative financial services.
 - 80% earn less than \$30,000/year.



A Commitment to Savings

- 97% say savings is important
- 75% regard banks favorably
- 50% say they save regularly or out of extra income
- What they save for:

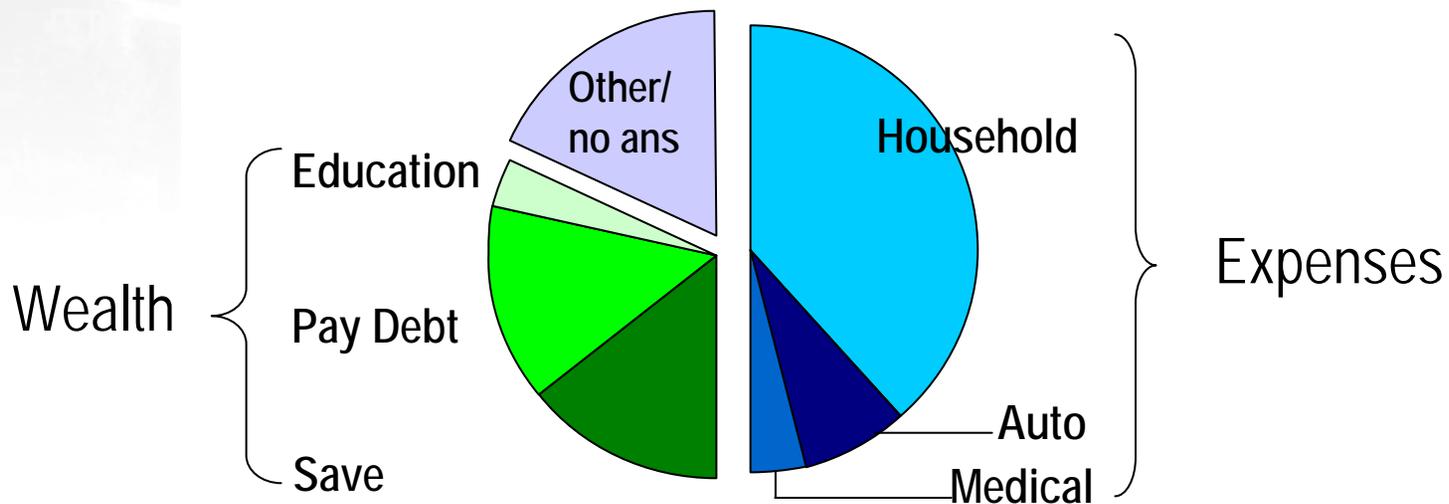


- Overwithholding is saving



Saving the Refund is a Challenge

- Single most important use of refund:

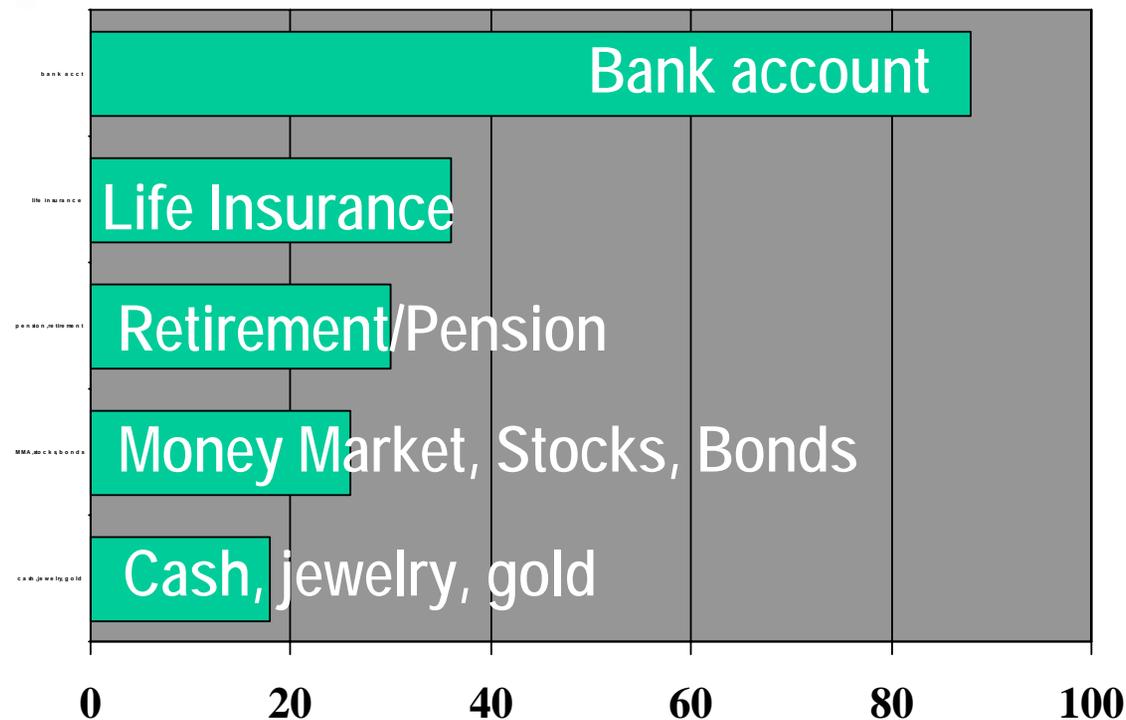


- **But, 26% saved some or all of refund over 6 months.**
- Those intending to save were almost 4 times more likely to.



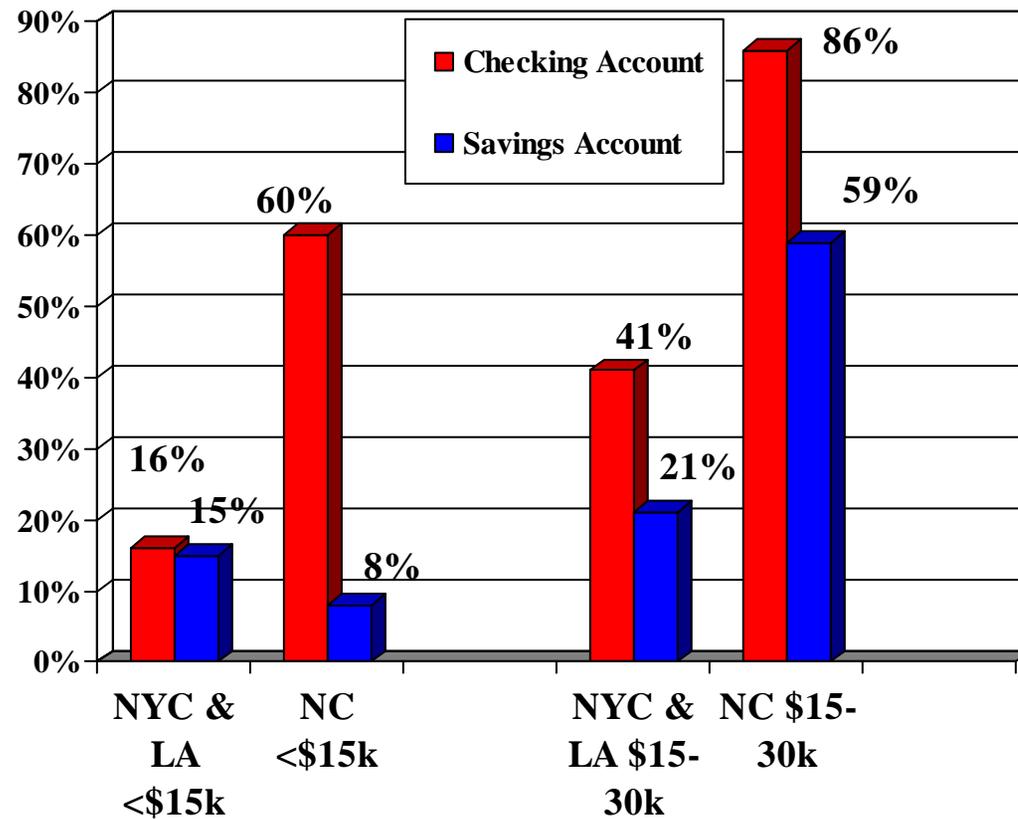
Importance of Banking Relationship

- Unbanked are much less likely to be savers.
- Bank account is most common savings mechanism:





Banking status of low income families varies between NYC/LA & North Carolina, 2000-2001





Full Financial Citizenship & Access to Banking System Requires...

- Financial Literacy & Education.
- Better use of Technology.
- Co-ordinated efforts of
 - Government,
 - Banking sector,
 - Employers,
 - Non-profit and community organizations..... and the working poor.



Banking and Asset Building: Transforming Refunds Into Assets

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