

UNDERBANKED NEIGHBORHOOD MARKET STUDY



LIBERTY CITY MIAMI, FLA

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“UNDERBANKED NEIGHBORHOOD MARKET STUDY: LIBERTY CITY, MIAMI” WAS PRODUCED BY:

The Center for Place-Based Initiatives: The Center for Place-Based Initiatives is a nonprofit intermediary that strengthens low-income neighborhoods as potential markets for banks or supermarkets. It does so through: market research aimed at revealing the untapped potential of the neighborhoods; support to consumer groups interested in documenting or aggregating their demand and packaging it for banks or supermarkets; educating grassroots leaders on the location-focused and market-based decision making through which corporations choose their retail locations; and helping nonprofits to design and deliver financial education or nutrition programs that will elevate their knowledge base as consumers.

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SUMMARY OF FINDINGS

Liberty City residents want banks. Despite decades of historic redlining – not to mention the current public scrutiny of the industry – Liberty City residents appreciate the importance of banking to their community. Many express the need for an additional bank branch, and a significant number would prefer it to be a national bank branch over a local bank or credit union.

A large population prefers online banking and is eager for credit products.

Liberty City's largest sub-population, the 18-34 demographic, is tech savvy, eager to bank online, and quick to adopt direct deposit. This customer segment is also eager to access credit products. For many banks, these services are key to profitability in a post Dodd-Frank environment.

New banks coming to Liberty City need not be full-size, full-service branches.

There is an open-mindedness about whether new branches need to be the large facilities that one traditionally thinks of as a bank branch, especially among the 18-34 demographic. What's important is that financial needs are met. Many residents can even do without expensive features like drive-through windows, which are generally considered requisites in South Florida.

There is strong local interest in financial education. Liberty City residents revealed a strong interest in increasing their own financial skills, as well as their knowledge of how the banking system works. Local leaders are specific in their thoughts about how financial education can best aid customers in growing assets.

Low-income customers in the neighborhood are unlikely to overdraw funds.

Contrary to assumptions about low-income customers over-drawing their accounts, the experience in Liberty City demonstrates the a reverse trend: the lowest income stratum is actually the least likely to mismanage their account or incur NSF charges.

As a community, Liberty City is prepared to organize support for a new bank.

Churches in Liberty City have already pledged to move their collective deposits into a new branch that meets local needs, and a group with a track record organizing pressure campaigns against banks is prepared to organize resident support for one that demonstrates community benefits.

INTRODUCTION

The purpose of this study is to lay the groundwork for the expansion of mainstream financial services into the Liberty City neighborhood of Miami. It is intended to supplement an earlier report, **“De Novo Opportunity: Liberty City” (August 2011)**, in which the case was made that a *de novo* branch located in Miami’s Liberty City neighborhood would not only represent a viable business opportunity with strong profit potential, but also deliver Community Reinvestment Act (CRA) impact of national significance.

The original report cited recent studies by Social Compact that provide compelling documentation of the size, strength, and density of the local market; revealing a surprisingly robust demand for financial services. It also revealed that 77% of Liberty City’s population expressed a strong need for new bank branches in the community in order to meet local needs. In addition, the original report cited Federal Deposit Insurance Corporation (FDIC) statistics that indicate that the only bank branches in the neighborhood, Chase and Regions Bank, had significant deposit bases despite the recessionary economy.

The proliferation of check cashing establishments, payday lenders, and other fringe providers on the major commercial corridors are thriving. And while the neighborhood was hit hard by the foreclosure crisis, Home Mortgage Disclosure Act (HMDA) data indicates it was not out of proportion with the region as a whole. What’s more, the drop in land values has meant that several prime real estate locations, including two that are adjacent to supermarkets, are available for potential bank branches at low prices.

From a CRA perspective, advocates have long called for new branches in Liberty City, designating it the

community in greatest need of financial services in Miami-Dade County. Its significance extends nationally; Liberty City ranks among the highest concentrations of urban poverty in the country, a dubious distinction shared with the South Bronx, Chicago’s South Side, and South Central Los Angeles. From a civil rights perspective, a new branch in Liberty City would affect more than half of Miami-Dade’s nearly half a million African Americans and Afro-West Indians. It was the setting for many historic civil rights events and has numerous well-known black institutions, like the Martin Luther King EDC, the African Heritage Cultural Arts Center, and the Belafonte TACOLCY Center.

Recent studies and reports have suggested that, independent of the social justice significance, there is a strong business case to be made for a *de novo* Liberty City bank branch. And in the current regulatory climate, when financial institutions are concerned with the economic viability of the branch banking model itself, this insight carries great importance. Beyond knowing that there is profit potential in Liberty City, a bank contemplating opening a *de novo* would need a much more detailed analysis of financial behaviors and preferences; a level of intelligence with which it could adapt its business model for optimal profit and optimal community relevance.

This report provides this deeper level of understanding of the Liberty City market by complementing the statistics from the past report with insightful on-the-ground intelligence. In preparing this report, we carried out a five-part methodology:

1 Phone Survey of Liberty City Residents:

We conducted, in collaboration with the Metropolitan Center at Florida International

University, a random survey of 406 households in Liberty City. The survey participants were obtained from a list of approximately 4,500 households with addresses located within the two mile radius of the Liberty city area. Responses were solicited by expert interviewers fluent in English, Spanish, and Creole, and were collected in the respondent's language of choice. With a 95% level of confidence, the overall financial preferences and behaviors captured by the study are suitable for making the most conservative business decisions.

2 Focus Groups: We analyzed the polling data further, by breaking it down into four logical customer segments in order to understand how the financial behaviors and preferences of the overall community varied by different sub-populations: Young Adults and Family-Starters (18-34), Middle Agers (35-64), Senior Citizens (65+), and Small Business Owners. For each customer segment, we convened focus groups at convenient locations so that residents could help us interpret patterns identified in the survey. Focus group meeting locations included a local McDonald's, the Carrie P. Meek Senior and Cultural Center at Hadley Park, the Carrie P. Meek Entrepreneurial Education Center (Miami-Dade College), and at the Merline Matthews Community Center.

3 Key Informant Interviews: We interviewed a total of 22 local opinion leaders, nonprofit executives, and clergy who have been active in the movement to increase financial services in Liberty City, to better understand what they have been working on and how their efforts might support or

align with a major financial institution wishing to serve the Liberty City market.

4 Windshield Survey: We conducted a windshield survey in order to identify all financial service providers (traditional and non-traditional) in Liberty City. For each financial service provider, its location and financial services offered were documented.

5 Best Practices: We undertook an extensive literature review in order to uncover market trends and best practices in serving an "underbanked" community.

The results from the research detailed above are organized in the four sections that follow:

■ **SECTION 1: OVERALL FINANCIAL ATTITUDES, BEHAVIORS, & PREFERENCES**

■ **SECTION 2: VARIATION ACROSS CUSTOMER SEGMENTS**

■ **SECTION 3: LEVERAGING COMMUNITY EFFORTS**

■ **SECTION 4: RECOMMENDATIONS**

By the end of the report, it will be apparent that Liberty City represents a range of viable options for a major financial institution that is open to investing or expanding into this still-untapped market. It will also be clear that local community leaders and organizations are prepared to collaborate with financial institutions to ensure that Liberty City not only meets their profit needs, but exceeds them.

SECTION 1 - Overall Financial Attitudes, Behaviors & Preferences

In order to assess the financial attitudes, behaviors, and preferences of Liberty City residents, the research team retained Florida International University to conduct a focused phone survey on financial behaviors and preferences at the household level in Liberty City. Survey questions were designed to uncover prevalent attitudes towards financial products and services, and it sought to understand how people are currently accessing (or not accessing) capital given the limited supply of mainstream bank branches.

To delve into more detail and gain a better understanding of the poll results, focus groups were conducted in three age groups: 18 to 34, 35 to 64, and 65 and above. It should be noted that an additional focus group with area small business owners was also conducted in order to better understand the unique viewpoints of this market segment serving Liberty City.

FINANCIAL ATTITUDES & BEHAVIORS

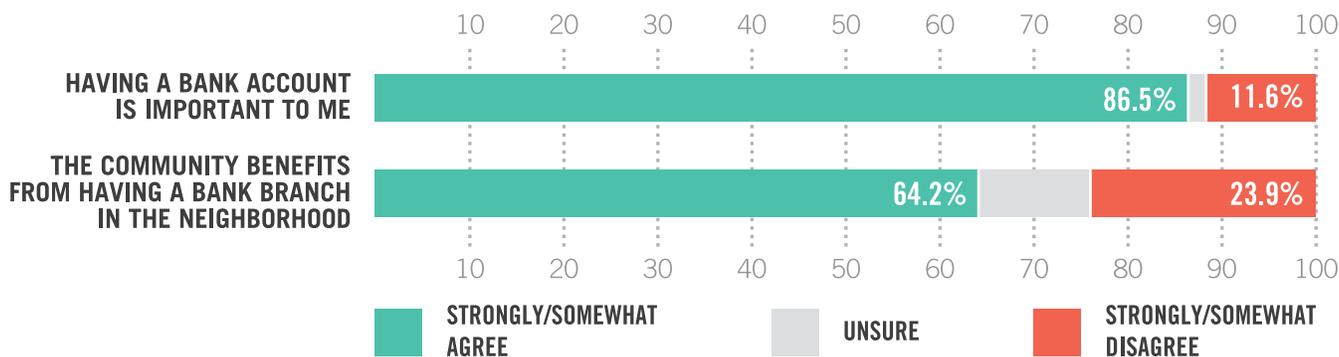
Described below are some of the more pronounced patterns:

Liberty City residents view banks positively.

While acknowledging the legitimate criticisms that can be levied against many banks, the vast majority of residents surveyed (87%) agree that having a bank account is important to them and most (65%) share a conviction that the community benefits from having a bank branch in the neighborhood (Figure 1). Most area residents (85%) have accounts at a bank or credit union. Furthermore, 79% of the respondents stated that they trust banks when obtaining financial services – this represented the highest level of trust when compared to other financial service providers: credit unions (66%), super markets (45%), and payday lenders/check cashers (17%) (Figure 2). Almost a fifth

FIGURE 1

ATTITUDES TOWARDS BANKS



of those surveyed (18%) expressed there are not enough branches in the area. In addition, 51% of the participants felt that a national bank was important to them when choosing a financial institution.

Interest in Credit Unions exists, but is more limited.

As stated above, a large share (66%) of the Liberty City population trusts credit unions (Figure 2). Focus group interviews revealed that Liberty City residents generally like the idea of credit unions. Some participants felt that credit unions “care more about folks,” providing friendlier service. They also charge lower interest rates, which, according to another individual, make them “worth the inconvenience.” This inconvenience, however, is a deterrent for many, along with other shortcomings, like limited capital and too few locations. One small business owner noted that going to their credit union is “a pain” due to few ATMs. “Credit unions have neither the resources

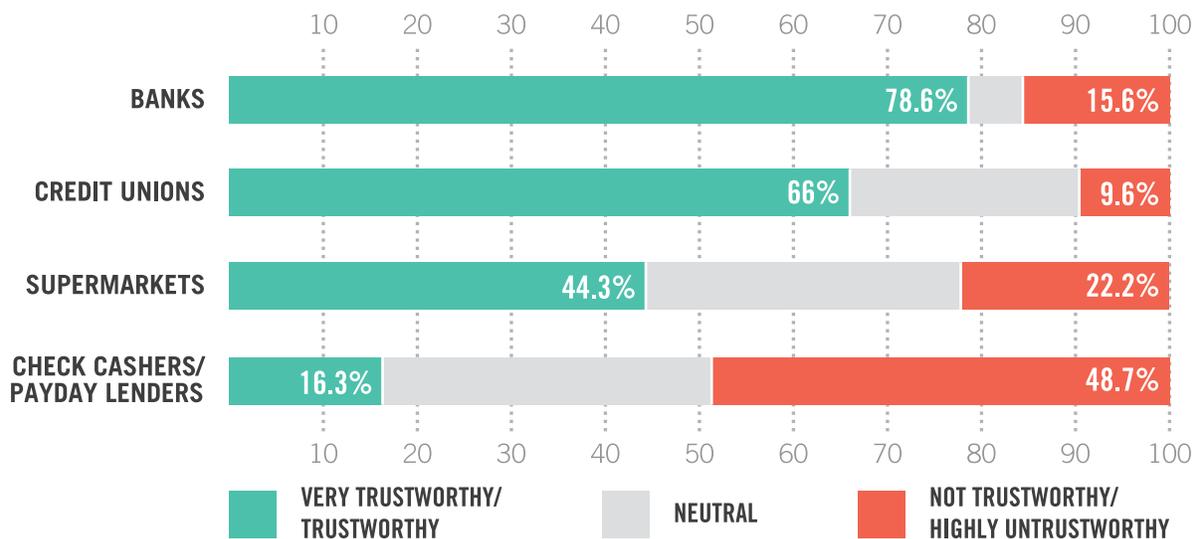
nor the capital to provide the same service as a bank,” asserted another participant. One resident was frustrated because the North Dade Community Credit Union requires three IDs to cash a \$50 check. In his view, such stringent identification requirements “discourage people from banking with credit unions.”

Low-income groups, in particular, want a full-service branch.

In an attempt to assess how technology (online and mobile) could be leveraged to supplement financial services in Liberty City, the survey asked several questions regarding access to the internet and preference for virtually managing accounts. It should be noted that the majority of the respondents (68%) disagreed with the following statement: “Bank branches are unnecessary for the types of financial services I use.”

FIGURE 2

PREFERRED FINANCIAL INSTITUTIONS



Therefore, it is safe to assume that many area residents feel that a full-service, physical bank branch is necessary for the types of services they need. There are differences amongst those surveyed. For example, a significant portion (71%) of the 18-34 age group prefers online banking over visiting a bank branch and more than half (52%) of those with an annual income over \$60,000 feel comfortable using cell phones to make purchases, and are more open to the possibilities of banking online. For lower-income groups, however, the need for a full-service branch was paramount. Only 4% of those with incomes under \$20,000 indicated a comfort with remote banking. The vast majority of respondents in the lower income categories felt that a physical bank branch, where they could have cash transactions and face-to-face interactions, was necessary for the types of financial services they use.

The priority factor in choosing a bank is a “comfortable environment.” About 92% of those surveyed indicated that banking in a comfortable environment was important to them (Figure 3).

This view cuts across all income and age groups. During focus groups, we probed for a common definition of a “comfortable environment,” discovering differing viewpoints. According to the focus groups, attitudes about attire were split between preference for formal attire (“When you talk about my money, I want you to wear a suit.”) and informal attire like polos and jeans to help facilitate connecting with the community (“Anything formal is perceived to be out of reach”). Other residents mentioned that the employees should greet them, know

their names, and provide workshops and offer the branch for event space that is open to the public to rent or borrow. Others like the idea of a coffee shop co-located with a bank (Examples: Umpqua Bank or Mango Money).

The second and third highest factors for selecting a bank, offering a full range of services, and having ATMs at many locations, were almost tied at 82% and 81% respectively (Figure 3). Interestingly, the existence of a drive-through (often considered a requisite for South Florida bank branches) was not a top priority, with only 61% citing it as an important factor.

The majority of Liberty City residents report that they never pay low-balance fees.

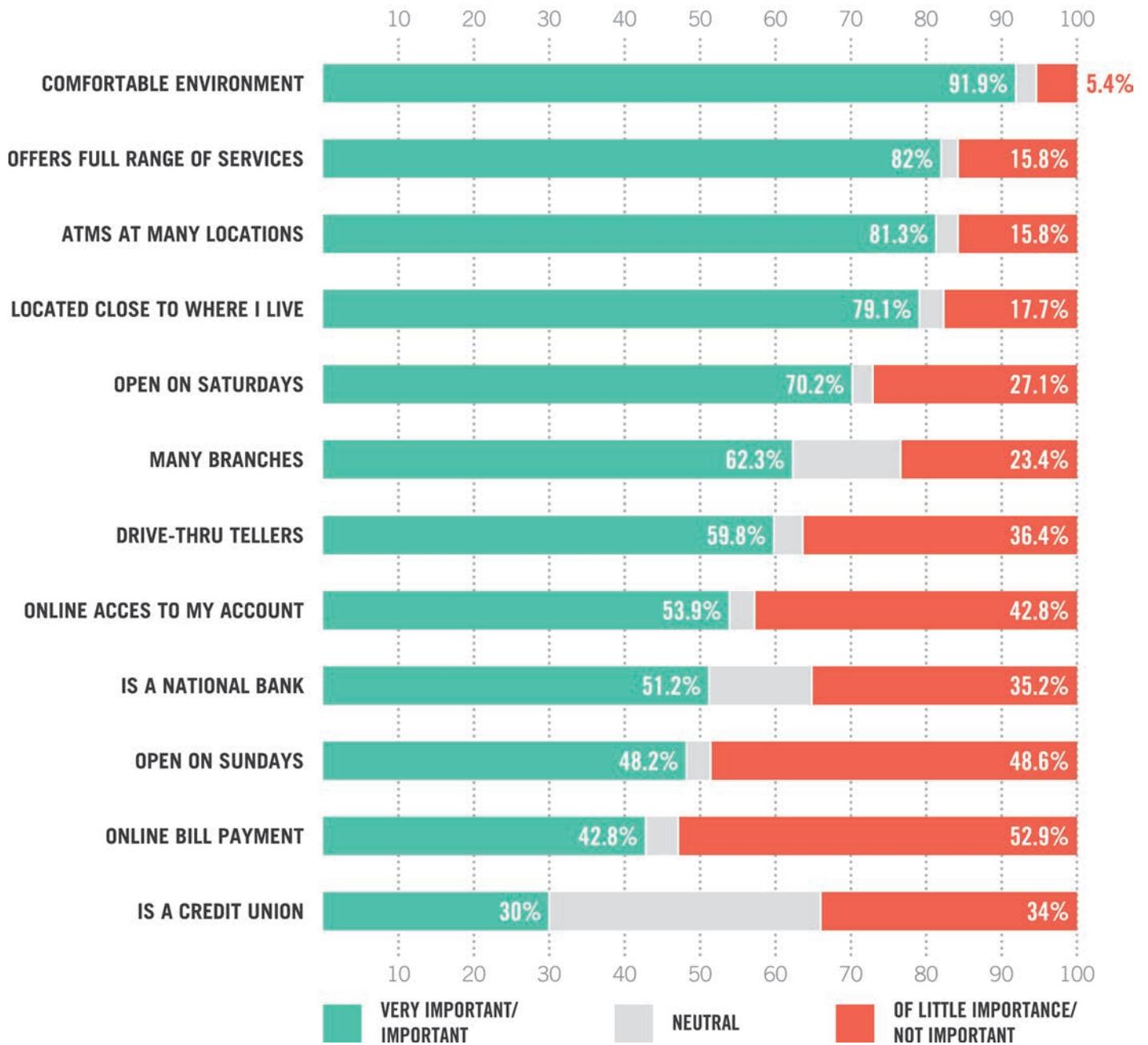
According to the phone survey, 67% of those with a bank or credit union account indicated that during the last 12 months they never have paid a low-balance fee (Figure 4). When taking into account those that have paid fees one to three times during the same time period (15%), it means that 82% of the area residents with a bank account report that they never or have rarely paid a low-balance fee.

It is interesting to note the breakdown of this behavior by age bracket: 85% of seniors, 72% of 18-34 year olds and 57% of middle agers have never paid a low-balance fee over the past 12 months. Furthermore, it should be noted that lower-income individuals with bank accounts also have a low incidence of low-balance fees: 81% of respondents with an income under \$20,000 and 81% of those with an income between \$20,000 and \$40,000 also reported that they have not paid a low-balance fee during the past 12 months.



FIGURE 3

FACTORS OF IMPORTANCE WHEN CHOOSING A BANK



FINANCIAL PREFERENCES

Focus groups and key informant interviews revealed possible demand and financial preferences for products and services that could be offered by a successful bank branch in Liberty City. What follows are products and services that include, when appropriate, references to best practices gleaned from the literature review.

ATMs are especially important in Liberty City. As indicated above, the presence of numerous, well-placed ATMs is considered by many to be an important factor when selecting a bank. ATMs represent the financial service that is most widely available in Liberty City.

According to the windshield survey, there are 62 financial services providers within or immediately abreast of Liberty City's boundary (See Map). Of these, there are two banks, Chase and Regions; the remaining 60 locations are non-traditional financial service providers (i.e. payday lenders, grocery stores, check cashers, etc) in which

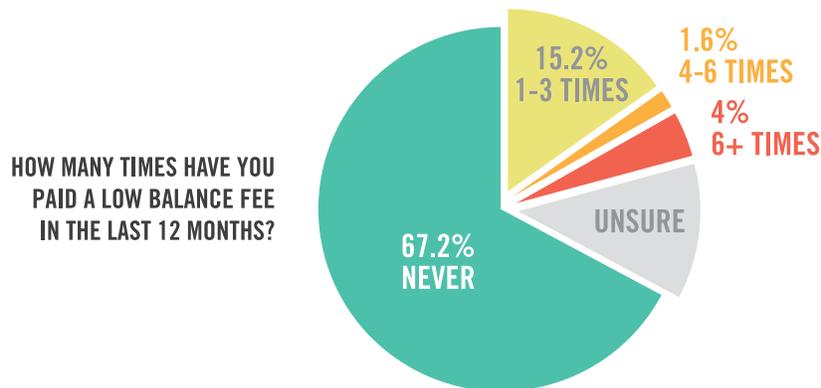
an ATM machine is the most common service provided, occurring in 49 locations in Liberty City (the second most common financial service are money orders occurring at 11 locations).

While ATMs may be abundant in Liberty City, focus group participants often cited that expensive fees and the inability to make deposits are deterrents to using these ATMs at non-traditional providers. In addition, focus groups reinforced the notion that ATMs that accept cash deposits (and could pay bills like the self-serve financial service kiosks by Tio Networks), are located in convenient, safe locations, and are accessible after business hours are a critical need in Liberty City.

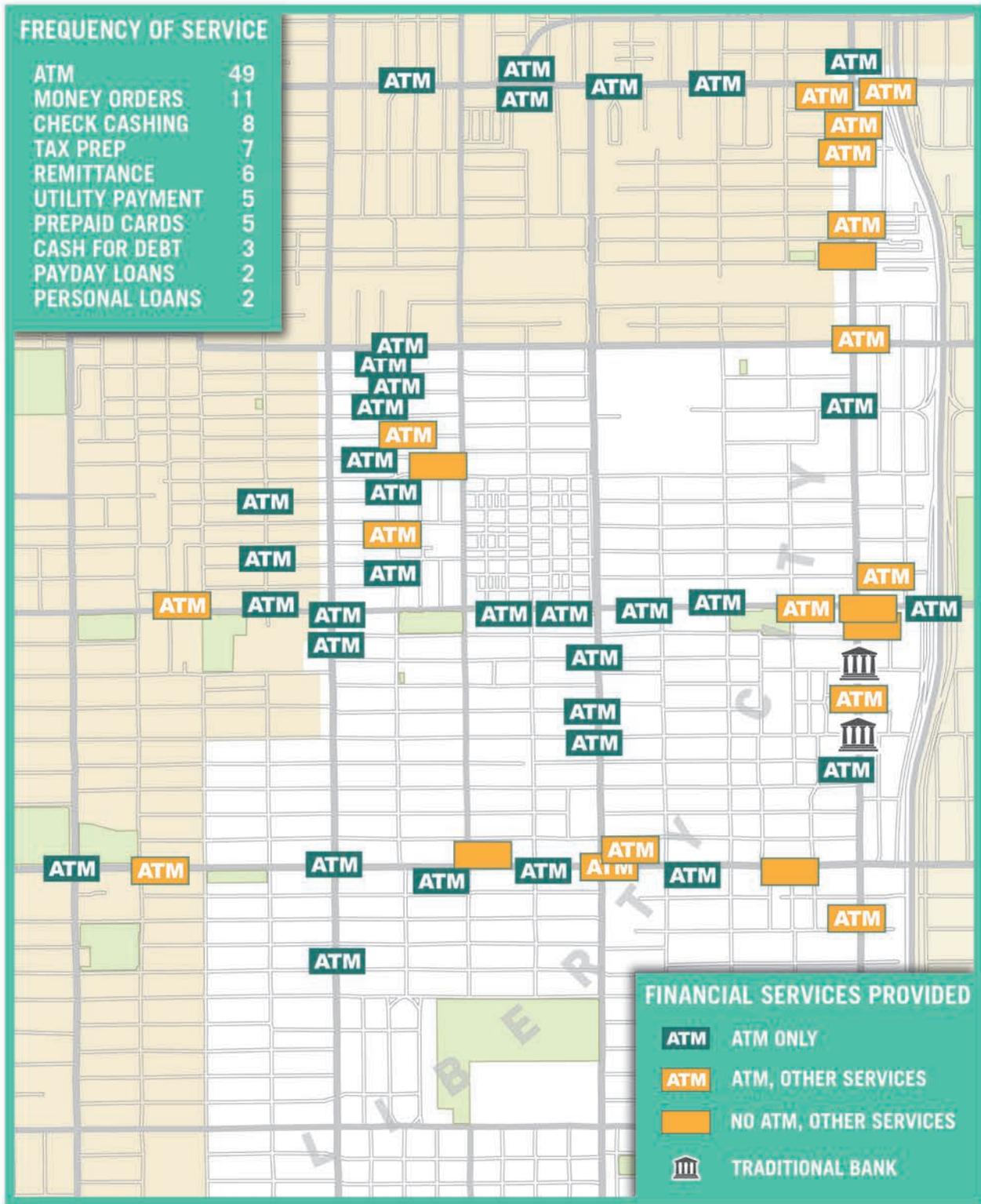
In focus group discussions, the reasons became evident. Individuals managing multiple jobs – often hurrying from one to another – struggle to get to banks during business hours. Others appreciate the fact that ATMs don't require them to have their ID to carry out a transaction, as they are required to inside a branch. Since they often use the ATMs

FIGURE 4

FREQUENCY OF PAYMENT OF LOW BALANCE FEES



ALTERNATIVE FINANCIAL SERVICES IN LIBERTY CITY



late at night, participants acknowledge that the ATM needs to be in a safe, well-lit location. As one small business owner remarked, “I love ATMs. I go to one at 7-11 because I feel safe there. When I need to make a deposit in the middle of the night, there are people always there.” Other focus group participants suggested ATMs could be located in a police station, fire station, or supermarket.

Paradoxically, according to the phone survey, many Liberty City residents do not have ATM cards. Of the survey respondents that have a checking account, only 53% use debit cards and 44% use ATM cards. It is interesting to note that there is a greater incidence of use of these cards in the middle age market segment.

There is a hunger for (and fear of) credit products. Focus groups and key informant interviews indicate that there is an enormous demand for credit in Liberty City’s small business and entrepreneurial community. Many small businesses in Liberty City suggest that, when cash flow is tight, it would be helpful to have access to a line of credit based on sales, contracts, or receivables.

There were success stories, of small business owners being helped by the local Chase branch through the step-by-step process of building a business plan. Another business owner received help from a banker in repairing her credit. But there are stories of fear and disappointment, too. Many business owners are scared by the idea of ruining their credit score, or of being rejected. Church leaders remarked that they had to go to a lender in Cleveland when Miami Banks refused to finance a new church building. Another business owner remarked, “I was turned down for a loan before I could even pinpoint the important parts before they were tagged by the bank.” Some business

leaders have not tried to ask for a loan, assuming the bank will say no. They acknowledge that it may just be a question of not having enough information, but they are reluctant all the same.

Finally, businesses mentioned that they were “open” to changing banks that could provide credit. Some of the business leaders were quite specific about the types of credit products that would be enable a bank to penetrate the local small business market:

- **Line of credit based on receivables:** The small business owners said that it would be helpful to have access to a line of credit based on sales, contracts, or receivables, considering a line based on sales over six months to be fair. A similar product was cited from Chicago.
- **Line of credit based on awarded government contracts:** A line of credit would be beneficial to those small businesses that do not have enough cash flow to start a project, but have the guarantee of a government contract. Contractors are expected to pay for project costs upfront and later invoice with payment from the government being notoriously slow.
- **Liquidity-based loans:** It was stated that the banks should take into consideration deposit history and amount of current liquidity when offering a loan.
- **Incremental loans:** For small businesses without a credit history, a “larger” loan can be given in increments and the business owner assigned an agent that provides oversight (to protect the loan

investment) and simultaneously provides credit technical assistance.

- **Microloans:** Currently, conventional lenders are not providing microloans. It was mentioned that microloan providers in the market provide both technical assistance and flexibility to work with clients in creating alternative payment arrangements.
- **Small-dollar loans:** A desire for small-dollar loans with lower interest rates, which were payable over several months and that use alternative underwriting was expressed. Some examples include ZestCash, which uses big data for underwriting, and Progreso Financiero, which uses a 12-question interview for instant underwriting.

Business leaders acknowledged that intermediaries might be required to aggregate sufficient numbers of customers, because the bank might not be able to manage smaller loan products without an economy of scale.

Liberty City consumers seek a partner who will “stick with them.” Many admitted that some of their reservations about credit products and other services are due to their incomplete understanding of the “system.” They were explicit about ways that a bank could help them grow into stronger customers:

- **Financial Coaching:** Residents and business owners alike expressed strong interest in financial education, indicating a preference for one-on-one financial coaching, counseling, or online resources over group classes. Understanding that

a branch has limited staff, they envisioned a nonprofit intermediary assigning financial coaches to individuals as they learn to bank. Ideally the coaching services would be co-located with the bank but would be autonomous to avoid conflicts of interest.

- **Assigned loan officers:** Business owners described the value of having a specific loan officer who would be designated as their contact at the bank, like a case manager. An assigned loan officer would help to create a healthier long-term relationship, make the transactions easier, and help avoid pitfalls or misunderstandings.
- **Transparency in fees:** Liberty City consumers agreed that, as a community, they still struggled to understand the various fees they are charged by their bank. In fact, the primary reason they frequent non-traditional financial services providers is that all fees are clearly posted and transparent. If a bank could proactively help consumers understand fees, it would create greater consumer loyalty.
- **Extended grace:** There was considerable interest in banks that would offer a longer period of time before closing an account. An account that is easily restored or has a grace period that would allow more time to become positive before closing is preferred. The small business owners noted that when they go “through a drought” of more than 31 days without activity, the banks often close the business account; and even a new deposit is not enough to reopen it.

■ **Prepaid cards:** There is a desire for prepaid cards with an attached savings account and credit-builder feature. A key informant suggested that a bank could create a “pre-membership” category for individuals who are not yet bankable. He cited Mango Money, which offers a high savings account interest rate of 6% that is covered by retained earnings that would have otherwise gone toward marketing. Mango also has simpler fee structures and small format retail storefronts. He added that a bank-issued card could leverage large IT infrastructure to keep costs low, allow competitive pricing, and build trust.

Specials draws small businesses. Much discussion in the small business focus group and key informant interviews focused on the particular services that could “win over” small businesses in Liberty:

■ **No/Low maintenance fees for a business account:** Many merchants in Liberty City currently travel inconvenient distances to bank with Total Bank because it does not charge fees for a business account. If there were a bank offering no, or very low fees in Liberty City, it could easily win these account holders over.

■ **Having the best deals on credit cards:** Having reasonable fees on business credit cards as well as reduced fees for point-of-sale credit card services can influence the choice of where the small business will bank.

■ **Commercial Express Line:** Small business owner focus group participants stated that businesses should be given a priority for banking, not just in the drive-through, but inside as well. A commercial express line inside the branch would cut the wait time to speak to an agent.

■ **Vetting unconventional and informal businesses:** In neighborhoods like Liberty City, a culture of “entrepreneurship by necessity” has created many informal home-based operations, many of which do not file taxes. Yet, many of these businesses have stable clientele and can perhaps prove their income in other ways such as using suppliers and other business relationships for credit references. Focus groups and key informants both suggested that lenders need to be thoughtful about what makes Liberty City unique and adjust how businesses are measured and vetted.



SECTION 2 - Variation Across Market Segments

The overarching patterns highlighted in Section 1 become even more insightful when broken down by the distinct age groups and market segments.

YOUNG ADULTS AND FAMILY STARTERS (AGE 18-34)

Young Adults and Family Starters expressed the greatest interest in obtaining credit.

This age group stood out as potentially having the highest profit potential of any of the segments; they were very interested in credit products, which many banks now consider to be their most important source of revenue. A significantly larger percentage of younger (20.5% of 18-34 year olds) than older respondents (1.7% of seniors) indicated they have considered borrowing money or obtaining credit in the past 12 months (Figure 5).

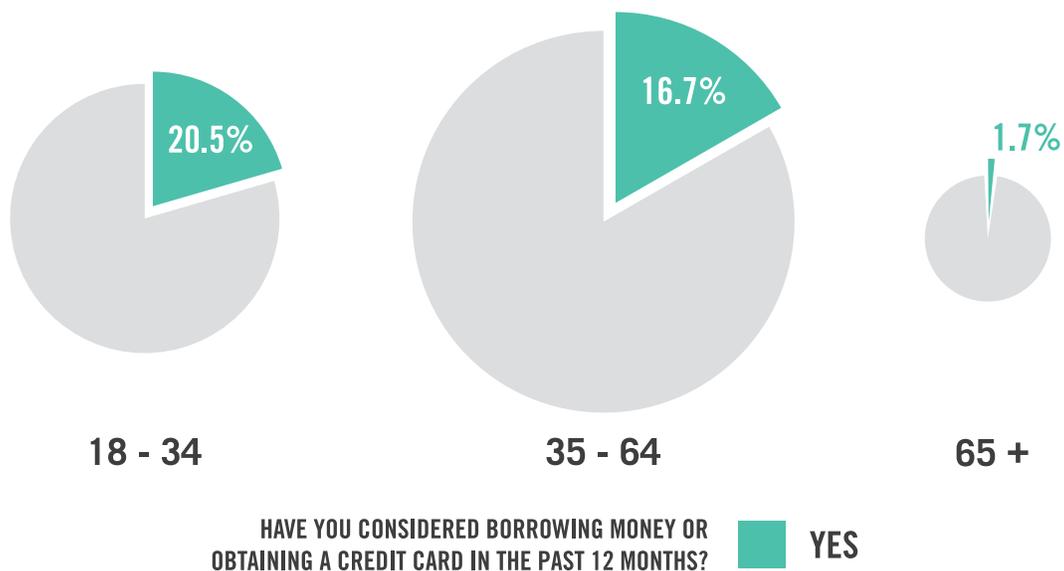
Their interest in credit services ranged from credit cards (56%) to home mortgages (22%), small business loans (11%), and lines of credit (11%). However, about a third of the group (33%) has applied for credit and been denied at some point, and another third (33%) has never applied because they are afraid they would not qualify.

18-34 year olds are extremely comfortable with technology.

With regards to questions about technology, it is worthwhile to note that the two older age groups (35-64 year olds and seniors) demonstrated a much greater discomfort with technology when compared to the younger age group (18-34). This age group tends to be more financially and technologically literate and are comfortable with making financial transactions online or using their cell phone, making them less frequent visitors to the branch and less costly to service. The implication is that young

FIGURE 5

COMPARING DESIRE FOR CREDIT BETWEEN AGE GROUPS



adult bank account holders would almost certainly take advantage of online banking and direct deposit (a factor which increases the profitability of that customer). A few key responses from the 18-34 age group were as follows (Figures 6, 7):

- Most respondents in this age group **have access to a computer with internet access (87%)** and **shop online (57%)**.
- A significant percentage **own a cell phone (91%)**, **send text messages (80%)**, **access the internet using their phones (64%)**, and **use apps (59%)**.
- Most thought that **online banking (90%)** and **online bill payments (70%)** were important factors in choosing a bank.
- Along this same vein, there is a significant portion of this age group that **prefers online banking than visiting a bank branch (71%)**. It is worthwhile to note that the other age groups provided answers diametrically different from the younger age group with only 34% (middle ager) and 16% (65+) agreeing with the statement.
- A similar pattern emerges with regard to how many were comfortable **managing money on a cell phone (57%)** and **using the cell phone like a credit card (57%)**. The older age groups disagreed very strongly with these two survey questions.

Environment and ATMs are high priorities when choosing a bank. When this age group is at a bank branch, they place greater expectations on the bank environment than other age groups. Approximately 91%

of the respondents in the 18-34 age bracket consider the branch's environment to be "very important" (as compared with 78% for middle aged adults and 71% for seniors over 65). Having many ATMs is also important to this market segment. Approximately 98% indicated that having access to many ATMs was "very important/important", compared to 89% (middle age) and 58% (65+). However, of those that bank in this age category, it should also be noted that 68% have debit cards and only about 47% indicated that they have ATM cards.

MIDDLE AGERS (AGE 35-64)

Full-range of service is important in choosing a bank, but few engage in these offerings. Although 82% of the middle age group indicated that choosing a bank that offers a full range of services was very important to them, only a very small percentage of those with bank accounts use financial services other than checking and savings. The majority of the banked respondents in this age group have checking and savings accounts, but there is very little use of other financial services like, debit cards (58%), ATM cards (54%), credit cards (50%), mortgages (25%), money orders (18%), personal loans (5%), remittance services (4%), and business loans (3%). Focus groups suggest that this may be a matter of financial education and that many residents are interested in gaining greater financial knowledge, especially if it is presented in a way they can make actionable.

Few stated an interest in credit products, but their interest in alternative credit sources may indicate otherwise. Only 17% of this age group has considered obtaining credit during the last 12 months (Figure 5). Of those that considered borrowing

money, most (93%) are interested in obtaining a credit card and 47% were approved for credit during the last year. Although only a small percentage of the survey respondents in general reported to have used alternative sources for credit during the last 12 months, this age group exhibited the use of these sources more often than the other age groups – especially payday loans and layaway.

Environment and ATMs are also high priorities when choosing a bank. Albeit to a lesser extent than the young age bracket, this age group felt very strongly about the branch’s environment, with 78% finding it “very important.” Having ATMs in many locations is also an important feature of a desired bank as 62% of middle agers found it “very important” (Figure 6).

FIGURE 6

TECHNOLOGICAL PREFERENCES BY AGE GROUP

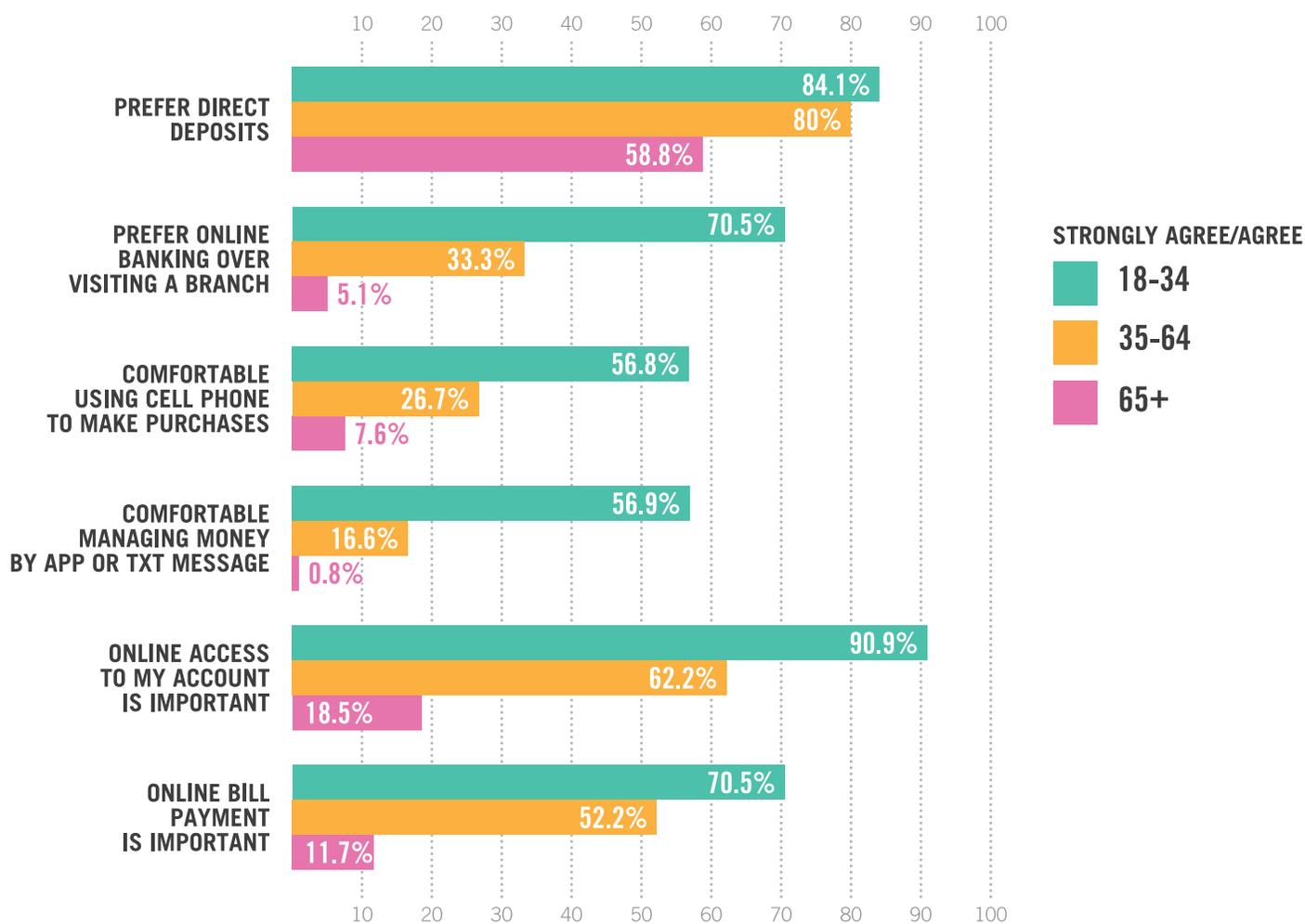
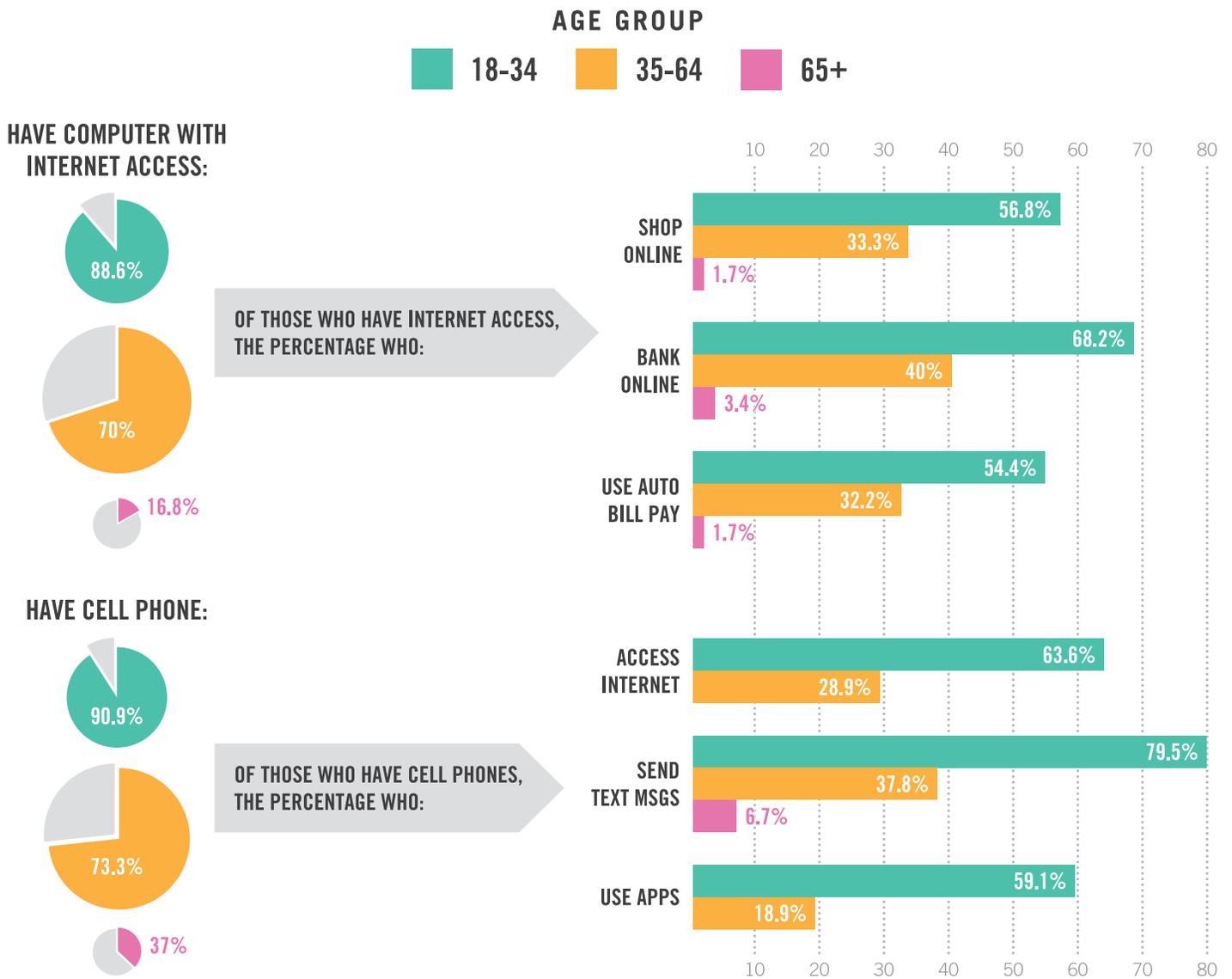


FIGURE 7

USE OF TECHNOLOGY BY AGE GROUP



With respect to ATMs, it is interesting to note that only a little more than half of the middle age group has debit or ATM cards.

The middle age group falls squarely between the two generations in terms of access to technology and comfort in using it to bank. Though as not as fully subsumed with technology as the younger age bracket, the 35-65 age group has access to technology (70%, computers with internet service and 73%, cell phone) but feels uncomfortable using the technology for online banking or using the cell phone like a credit card, and would rather visit a bank branch than bank online (Figure 6).

Also, less than half the population in this age bracket with access to the technology currently uses it for other activities such as online shopping, automatic bill pay, accessing the internet via the cell phones, text messaging or using apps (Figure 7). Along this same vein, this age group also fell between the two generations in terms of thinking that the following factors are “very important/important”: online banking (62%), online bill payment (52%), and having many branches (63%).

In addition, it is interesting to note that percentages for online bill payment indicate a population that is split on the level of importance with very little being neutral – meaning that the majority (46%) of the balance of the population in this age group thought that online bill payments was a factor of “little importance” or “not important.”

There is a potential market to increase direct deposits in this age group. The majority (68%) of the respondents in this age group receive regular payments via direct deposits. It is interesting to note that

when given the preference, an even greater majority (80%) “strongly agree/agree” with the statement that they would prefer to receive regular payments via direct deposits.

SENIOR CITIZENS (AGE 65 AND ABOVE)

Senior citizens are a highly ambivalent customer segment in Liberty City, which was borne out in both the surveys and focus groups. There are those who have strong opinions about the importance of banks. One senior remarked, “I’m 74 years old, and I’m old-school. I believe in saving. My oldest daughter, however, spends everything she makes.” There are also those who see no need for banks, and those that have a negative view of their experiences at banks, “I hate to sign in and wait,” as another senior explains. Seniors seemed more concerned than most that retail services in the neighborhood are increasingly provided by Hispanics and in Spanish. Below are the key findings for this age group:

While most seniors have a bank account, the percentage was the smallest among the age cohorts. Most respondents in this age group have bank accounts (75%), however, this was the smallest percentage among the three age groups. A quarter of this age group responded that do not have banks accounts and the most often cited reason why is because “they had an account and chose to close it.”

Seniors banked close to home more often than other age groups. The majority (84%) of the 65+ age group responded that their primary bank is located in their area, representing a greater percentage when compared to the other age groups. It should also be noted that senior citizens were also more likely (85%) to **never**

have paid a low balance fee when compared to the other age cohorts.

Although this age group was most apprehensive about payday lenders and check cashers, they were also most likely to use their services. This age group was also more likely than the other two groups to cash a check at least a few times a year at a place other than a bank (20%), but also more likely to consider payday lenders/check cashers “not trustworthy/highly untrustworthy” (54%).

Many times, the respondents from the 65+ age group responded similar to the other age groups, but with a weak majority. A little more than half (57%) strongly/agree that the community benefits from having a bank branch within the neighborhood; this represents the smallest percentage among the age groups (73% of young adults and 64% of middle agers).

About half of the 65+ age group receive regular payments via direct deposit., significantly lower than the 18-34 group (66%) and the 35-64 group (68%).

Only 58% of seniors think having many ATMs is an important factor in choosing a bank. While this is a majority, the other age groups thought it was more important with 98% of young adults and 89% of middle agers thinking it was “important/very important.”

There were a number of areas where the 65+ age group strongly differed from the remainder of the population. While the other two age groups mostly trust supermarkets to provide financial services (though it should be noted that the middle age group was leaned a little more neutral

on this issue), a plurality (40%) of the 65+ age group thought the supermarkets were “not trustworthy/highly untrustworthy.”

A very large majority of the 65+ age group does not have access to a computer with internet service (82%) and don't have a cell phone (63%) (**Figure 7**).

Seniors expressed the greatest level of discomfort in using technology for banking.

In terms of comfort with technology, the 65+ age group joined the middle agers in their dislike of it, but always much more so. In answer to the statements that online banking would be preferred to visiting a bank branch, managing money with the cell phone, and using the cell phone like a credit card, seniors responded overwhelmingly negatively, with percentages for “disagree/strongly disagree” responses in the 80th percentile.

Seniors thought that online bill payment was of “little importance/no importance” when choosing a bank (82%). However, it should be noted that in focus groups, seniors expressed an interest in learning how to bank online if given assistance and access. In fact, many deemed it as an alternative worth exploring in order to reduce their feelings of insecurity caused by keeping cash on their person to pay for bills.

SMALL BUSINESS OWNERS

According to business license data provided by the City of Miami, there are approximately 446 businesses in the Liberty City. There are a handful of large national retailers in the area, but most are small storefronts, like convenience or grocery stores, hardware stores, barbers or hair stylists, apparel shops, daycare providers, medical offices, or

package stores. Currently, most of the entrepreneurs are coping by self-financing their businesses or borrowing money from family members. Key informants and the business owners from the focus group spoke at length about the need for and the difficulties in accessing credit.

Furthermore, several key informants mentioned that developers interested in purchasing and redeveloping properties in Liberty City have trouble accessing loans under \$10 million due to a lack of appetite for small loans among banks. The cost of dispersing these loans is often too great for the banks to overcome, even with public subsidies

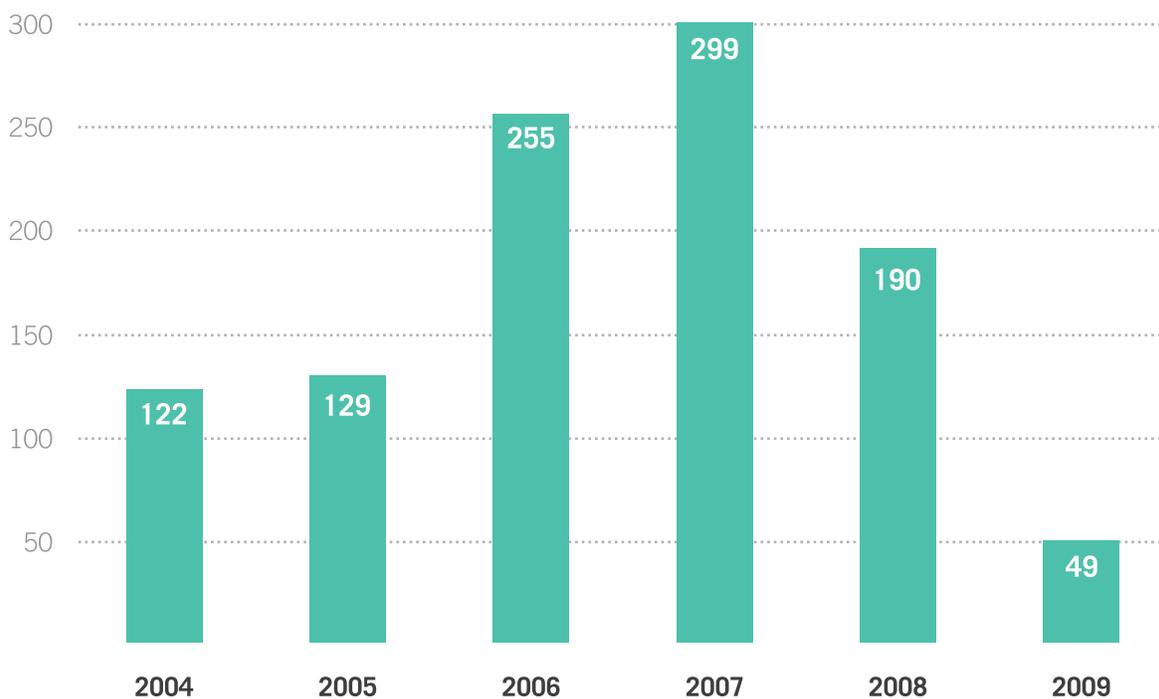
such as New Markets Tax Credits (NMTC). Specifically, one key informant mentioned that Bank of America turned down a \$3.5 million deal with NMTCs due to the small size of the loan.

The Community Reinvestment Act data provides information regarding the size of the small business loans originated by financial institutions. This data confirms the small business owners' statements regarding the difficulties in accessing capital: In Liberty City, there are fewer loans for smaller dollar amounts since the lending peaked in 2007-- but also below 2004 rates (Figure 8).



FIGURE 8

NUMBER OF LOANS ORIGINATING IN LIBERTY CITY



SECTION 3 - Leveraging Community Efforts

Key informant interviews conducted for this report reveal that Liberty City's local leadership is unusually experienced in their efforts to increase access to banking and could represent unusually strong allies for a financial institution wishing to enter the market.

Some have worked for a generation to attract banks to Liberty City and have been disappointed by the lack of progress. Long-term residents recall the redlining of Liberty City in the sixties and seventies that led to massive disinvestment. They acknowledge that the Community Reinvestment Act (CRA) increased lending in the area, but point out that two decades of deregulation have led to targeted predatory lending in Liberty City. The foreclosure crisis has also had an impact – not just with single-family homes, but multi-unit buildings are foreclosing too. One informant in particular felt that without a strategic response to the foreclosure crisis, the devastation of the housing market could endure for another 30 years just as the commercial district never recovered after the civil disturbances of the 1980 riot.

One outspoken critic of the banking industry stated that the community has demonstrated a “one-sided allegiance to banks,” and that, “moving forward, Liberty City residents would need to be very selective and strategic in choosing the banks with which they will do business.” Residents should patronize banks on the basis of their entire portfolio of investments and activities in Liberty City, insisting that a bank demonstrate that it “has the community’s best interest in mind and does not only want to extract money.” This does not mean the community would not welcome a large bank into Liberty City. On the contrary, the community seeks financial institutions “with demonstrative value sets [that are] aligned with social concerns.” Residents would

partner with a bank that brings benefits to the community, helping it succeed by aggregating local deposits and mobilizing residents to become account holders and borrowers.

Local leaders are also confident that their local elected officials can be persuaded to bring county or city deposits that could help a branch achieve its breakeven earlier than expected. They point out that other municipalities around the country have successfully incentivized banks to open branches in low and moderate income census tracts by making deposits of this kind. Local leaders have already tentatively raised the idea with the City of Miami. A good vehicle for pursuing this idea is the City’s Blue Ribbon Committee on Economic Initiatives.

Moreover, there are a network of nonprofit organizations and special initiatives that provide a range of financial education and asset-building programs as well as institutions acting as loan intermediaries. If properly mobilized, these organizations can act as an infrastructure for cultivating and referring customers, and as alternative distribution channels for a new bank branch. These include:

ACCESS Miami, a program of the City of Miami Office of Economic Development, that works with local partners on a one-on-one, customized basis to offer opportunities for residents year-round, including financial seminars, workshops, free tax sites, training, job listings, etc. ACCESS Miami is a citywide, comprehensive empowerment strategy aimed at increasing residents’ access to the financial tools and education that are fundamental to economic prosperity and success. The City of Miami is launching a One Stop Center in partnership with Workforce Florida and the Lindsey

Hopkins Technical Education Center (in Allapattah, just south of Liberty City). It should also be noted that ACCESS Miami compiles a list of individuals that have completed its programs that have been “pre-approved” as ideal candidates for mortgages. Currently, the City of Miami is seeking partnerships with banks that would be willing to work with ACCESS Miami to identify foreclosed properties in CRA areas that may be sold to these individuals.

The Collective Empowerment Group of South Florida (formerly the Collective Banking Group of South Florida), a coalition of 75 churches that has spent the last several years tracking the aggregate bank deposits of its membership in order to leverage it to receive equitable treatment in acquiring loans and other banking-related services. Currently, the Collective is covenant with five local banks that together work for this purpose. Recently, the group expanded their mission to include financial literacy, education, healthcare, homeownership preservation, public safety, and public policy. The president of the Collective, Pastor Joaquin Willis, was often noted in key informant interviews to be a well-respected community leader in Liberty City.

The United Way Center for Financial Stability, which is housed and operated by South Florida Urban Ministries, offers a full range of services and support to help working individuals and families achieve long-term economic independence. The center currently has a formal agreement with Urban Strategies to help public housing residents at the Scott Carver apartments to become financially self-sufficient. The United Way provides the residents free financial assessments and helps them to develop goals. Urban Strategies would like to expand these

services, like helping them have access to free financial services and free tax preparation.

Miami-Dade College Carrie Meek Entrepreneur Center, located in the heart of Liberty City with a focus on economic and community development. Students can take part in a variety of college credit and noncredit courses, as well obtain the business skills needed to enter the labor market or become entrepreneurs. Recently, the center launched the Wells Fargo Urban Microentrepreneurs Initiative. The program is supported by a contribution from the Wachovia Wells Fargo Foundation and is designed to galvanize and support commerce throughout Little Haiti, Liberty City and Brownsville-Gladeview. It should be noted that the center’s director, Leigh Toney, was often mentioned as one of the natural community leaders in Liberty City.

The Miami-Dade Chamber of Commerce, which was founded by a group of black businessmen out of a need for a strong organization that could objectively advocate the needs of a growing black business community. The current Chief Executive, Bill Diggs, is credited for increasing the Chamber membership to over 400 members. It should be noted that community leaders often suggested Mr. Diggs as a possible key player in negotiating with lending institutions and representing the interest of small businesses. The Chamber has been concerned about (and criticized for) its lack of outreach to more black small business owners. Helping to bring mainstream banking services to businesses in Liberty City would go a long way toward addressing this shortcoming.

TACOLCY, a nonprofit organization located in City of Miami Park in Liberty City. According to a key informant interview, TACOLCY is in the midst of an organizational

shift – moving away from providing social services to individuals towards an organization that provides a framework to create social change in Liberty City. The initiative aims to empower individuals around a collective voice as well as help develop civil leadership in Liberty City that hopes to cultivate the next generation of leadership in Liberty City.

EXISTING MICRO LENDING ORGANIZATIONS:

■ **Partners for Self-Employment (PSE)**, is a certified CDFI and one of five SBA-accredited micro-lenders in the State of Florida. The organization offers two types of microloans with interest rates at 12%: Peer Lending, in which entrepreneurial and financial literacy training are combined with peer-evaluated business loans of \$1,000 to \$5,000; and Direct Loans, a loan program available to small businesses that have existed for a minimum of two years and that have accurate financial records. Loan amounts vary and can go as high as \$35,000. There is no training component required for this loan program but technical assistance is provided to complete the application if necessary.

■ **ACCION USA** is a microfinance organization that offers small business loans from \$500 up to \$50,000 and credit and business advice to small business owners who cannot access traditional credit. Accion has experience in assisting commercial banks start microfinance programs and have four models they use to work with interested

banks: 1) An internal unit within the bank; 2) A financial subsidiary; 3) A Private Service Company; 4) Creation of new Micro Finance Institutions with bank co-investors.

■ **Our Microlending** is a Florida LLC for-profit company that lends to South Florida micro-entrepreneurs specifically targeting low and moderate income entrepreneurs that have no access to commercial business loans. The loan pool comes from their shareholders and a small group of socially responsible investors. It uses character-based approvals that are not based on credit scores, but on criteria such as the individual's experience in the field, business plan and other important clues that demonstrate that the loan will be repaid. They send loan officers to meet potential borrowers at their places of business, where they also weigh intangibles like references from customers. They offer borrowers that lack physical collateral or a co-signer the option of solidarity group lending.

THREE FORMATIVE CREDIT UNIONS

Finally, the sense of urgency around financial services in Liberty City has led to three separate entities at various stages of attempting to create a credit union to serve Liberty City.

First, the **Collective Empowerment Group of South Florida** and the **Miami Chamber** have quietly and diligently been working on exploring the option to take over an existing credit union that has a \$4 million threshold. Their goal would be to apply for \$15-20 million

in CDFI dollars in order to expand the credit union's assets. It could then refinance mortgages and provide small business loans. The credit union might also partner with existing check cashing stores, "turning them into branches of the credit union," and provide financial education to members.

The second entity is **Partners for Self-Employment**, where the board chair is determined to initiate the charter proposal for a small business credit union before the end of the calendar year. The credit union would engage small businesses as well as their employees

and the employees' immediate families. Its profits would cross-subsidize the activities of the nonprofit.

And third, **Neighbors and Neighbors Association (NANA)** has proposed to establish a MLK Liberty City Credit Union to be located within the Model City/Liberty City area. The credit union proposes to serve NANA's membership and the residents of Miami-Dade County.

These three ventures are evidence of both the need for financial services and the preparedness of local leaders to take action.



SECTION 4 - Recommendations

Based on the information compiled in this report, there are at least four scenarios which exist for a financial institution wishing to expand financial services in Liberty City. These scenarios, none of which are mutually exclusive, are presented here in descending order of commitment:

A Full-Service De Novo: A major financial institution could open a *de novo* bank branch in the neighborhood, on one of the available parcels on major commercial thoroughfares, perhaps near one of the supermarkets or other major retailers. To minimize costs and optimize profits, the business model and marketing strategies for the new bank branch could emphasize 18-34 year olds, the segment most inclined to borrow, apply for credit, or use online banking. To the extent possible, the branch would serve as an experimental prototype for the financial institution, testing products and services geared toward low-to-moderate-income customers, such as secured credit cards, pre-paid cards, small dollar loans, etc. These products could be marketed through key nonprofit partners that could provide wraparound customer support and help to ensure that the customers succeeded and that accounts were profitable in the long-term.

Mini-Branch with Online Banking Support Center: A financial institution could open a modified, small format bank branch providing limited transactional services that is adjoined to a technology center where local residents could receive assistance with online banking. The center could be an independent, freestanding facility or could be co-located with the Lindsey Hopkins Center, the Belafonte TACOLCY Center, or another community facility equipped with computer terminals. Young adults who bank online from home can come to the branch

for special assistance, loan applications, or one-on-one consultations. Older customers could receive training in the benefits and basic skills required for online banking. The bank could also maintain formal arrangements with key nonprofit financial education providers who could animate the center with budgeting workshops, free tax preparation, asset-building programs, micro-lending services, etc.

Joint Venture: A financial institution could enter into an agreement with a group of local stakeholders and investors who would like to create their own bank in Liberty City. It might be built to the specifications of the national financial institution, which might also be contracted to provide back-office services or capital management services for the new bank branch. But it would not bear the brand of the financial institution. The investors and stakeholders could manage the bank until it achieved a positive Profit-and-Loss statement, and then be sold to the large financial institution. Residents would be aware of the ultimate intention to sell the bank to the large financial institution, motivating them to help it become a success, and perhaps creating the opportunity for a small IPO structure and a mechanism for local residents to benefit from the ultimate sale.

Investment in Local Credit Union: The financial institution, perhaps in a syndicate with other financial institutions, could help to capitalize one or more of the aforementioned three credit union plans underway. The financial institution might also choose to facilitate conversations among the three interest groups to explore the consolidation of the three plans. Ultimately, any capitalization of the credit unions could qualify as community development investments for the financial institution, in addition to providing financial returns.

Furthermore, a credit union could provide a way to grow customers in the neighborhood, helping those with little banking experience or low credit scores be better prepared for mainstream banking. If the financial institution were

to one day open a branch in the area, it could negotiate referral arrangements through which customers might “graduate” form the credit union into the larger institution.



