

## Community Affairs

## Fact Sheet

### Bank Savings Incentive Programs

Bank savings incentive programs are initiatives that encourage consumers to start or increase savings through deposit accounts. Financial institutions offer these programs to existing and prospective customers. These programs strive to make saving as easy as possible.

Although the overall U.S. personal savings rate has recently been increasing, a significant portion of the population has not benefited from that increase. A recent nationwide survey shows that less than one-third (32 percent) of low-income households and half (48 percent) of moderate-income households have savings accounts.<sup>1</sup> The ability of lower-income households to save during economic downturns is even more challenged, particularly as family members lose jobs or suffer expenses from unplanned life events.

#### Increasing Low- to Moderate-Income Savings

Recently, the Consumer Federation of America and the Financial Services Roundtable noted that over 80 percent of Americans bank customers believe the most effective way to increase personal savings is through automatic deposits into savings accounts from paychecks or checking accounts<sup>2</sup>. Most financial institutions offer basic “no frills” savings accounts. Recently, financial institutions have begun to promote these accounts by offering incentives to customers who set up

automatic deposits. Financial institutions also are working with local governments and community-based organizations to encourage saving.

Several financial institutions that offer and promote automatic bank savings incentive programs report that the number of savings accounts opened and the dollar amounts that people have saved have increased as a result of promotion efforts.

#### Bank Savings Incentive Programs Involving Partnerships

Financial institutions across the country offer a variety of savings incentives programs targeted to low- and moderate-income households. Many of these programs involve bank partnerships with local governments and community-based organizations, while others are offered directly by banks and credit unions.

One such partnership is the “Bank On” program. Financial institutions in about 50 cities and three states around the country work with local governments and community groups to promote participation in the Bank On program. Patterned after the model program in San Francisco, Bank On programs offer low- and moderate-income individuals and the unbanked and underbanked access to low- or no-cost financial products and services. In addition to offering access to financial products and services, Bank On programs offer basic financial education to participants.

<sup>1</sup> Federal Reserve Board of Governors, “2007 Survey of Consumer Finances.”

<sup>2</sup> Consumer Federation of America and the Financial Services Roundtable press release, February 18, 2010.

## **Examples of Bank Savings Incentive Programs Targeting Adults**

Financial institutions also offer savings incentive programs directly to existing and potential customers. The programs offer a variety of features to encourage increased savings.

Many financial institutions participate in Individual Development Account (IDA) programs. IDAs are matched savings accounts designed to help low- and moderate-income persons save for specific goals, such as purchasing homes, creating small businesses, and furthering education.

Financial institutions participate in other asset-building programs to help for low- and moderate-income households to build savings. Many programs offer a match component, similar to IDA programs, to save for goals. A pilot asset-building program is working with employers to directly deposit a small amount of post-tax wages via payroll deduction into bank savings accounts (with the employees' consent).

Other programs promote saving through the Earned Income Tax Credit (EITC) and the Internal Revenue Service Volunteer Income Tax Assistance (VITA) programs. EITC programs offer working low- and moderate-income individuals a tax credit, which often results in an income tax refund. Many financial institutions work with local organizations by offering low- and no-cost accounts in which the tax refund may be directly deposited. Some financial institutions offer grants and donate staff resources to coordinate free tax preparation sites, expand outreach, and conduct financial education and literacy programs.

Financial institutions offer a number of proprietary savings incentive programs. One such program requires customers to automatically transfer money from their checking accounts. Customers may add additional amounts to check cards or credit card purchases and automatically transfer that money to their savings accounts. The bank rewards customers with \$50 each when their

account balances reach \$1,000 and an additional \$50 if the balances remain at \$1,000 for a year.<sup>3</sup>

Another bank program automatically transfers \$1 to savings accounts every time customers use their check cards, pay bills online, or make automatic payments from their checking accounts.

Customers may set up monthly transfers of up to \$100 from their checking accounts to their savings accounts.<sup>4</sup>

In addition to offering an anniversary bonus, some banks offers free overdraft protection with a monthly \$25 automatic transfer to savings. This may be attractive to underbanked consumers.<sup>5</sup> The inability to control overdraft fees is often cited as a reason for not having bank accounts.

One bank savings program rounds up to the nearest dollar purchases customers make using their check cards, with the difference deposited into their savings accounts. During the first three months, the bank matches 100 percent of the transferred money, and 5 percent thereafter, up to a maximum of \$250 per year.<sup>6</sup>

Prize-linked savings are also being studied for the effect on savings. In one pilot, for each \$25 saved by a credit union member earns on entry in a \$100,000 grand prize drawing. There are also smaller prizes in monthly drawings. The money must stay in the account for a year for the entry to remain eligible for the grand prize drawing. The first year of the pilot generated over \$4.6 million in savings.<sup>7</sup> Although the results are encouraging they are limited as banks are prohibited from offering lotteries, which is the basis of this pilot.

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<sup>3</sup>[http://www.usbank.com/en/personal/products\\_and\\_services/savings/start.cfm?redirect=start](http://www.usbank.com/en/personal/products_and_services/savings/start.cfm?redirect=start)

<sup>4</sup> <https://www.wachovia.com/savings/way2-save.html#panel1>

<sup>5</sup>[https://www.suntrust.com/portal/server.pt/community/live\\_solid\\_savings/1869](https://www.suntrust.com/portal/server.pt/community/live_solid_savings/1869)

<sup>6</sup>[http://www.bankofamerica.com/promos/jump/ktc\\_coinjar/index.cfm?&statecheck=DC](http://www.bankofamerica.com/promos/jump/ktc_coinjar/index.cfm?&statecheck=DC)

<sup>7</sup>[www.d2dfund.org/system/files/Save+to+Win+Final+Report.pdf](http://www.d2dfund.org/system/files/Save+to+Win+Final+Report.pdf)

## **Examples of Bank Savings Incentive Programs for Children and Youth**

Financial institutions also offer savings incentive programs to encourage children to save. They offer children's savings accounts with low or no minimum deposit. The accounts often do not charge a monthly maintenance fee or require a minimum balance.

Children's bank savings programs also may provide financial education for children and youth. Some banks target the education to children ages 12 and under and teens ages 13–18. The financial education in these programs is age appropriate.

Some bank savings programs that target children offer club cards, newsletters, financial education Web sites, and gifts and incentives. One bank matches initial deposits up to \$10, and at the end of the school year, deposits \$1 into children's savings accounts for each "A" on the child's report card up to \$5. Another bank gives the children a stamp for each \$5 deposit. When the children earn 10 stamps each, they receive gift certificates to their choice of retail stores, restaurants, or movie theaters.

## **CRA Considerations**

Savings incentive programs targeted to low- and moderate-income individuals and families may be deemed responsive to community needs and may receive positive consideration as retail or community development services under the Community Reinvestment Act (12 CFR 25 and 12 CFR 195). For example, a bank might offer financial services, including low-cost savings and checking accounts that have community development as a primary purpose.<sup>8</sup>

## **For More Information**

### **OCC**

- [Financial Literacy Resource Directory](#)
- [Community Developments Insights "School-Based Bank Savings Programs: Bringing Financial Education to Students"](#)
- [Community Developments Insights "Individual Development Accounts: An Asset Building Product for Lower-Income Consumers"](#)
- [Community Developments Investments "Cultivating Community-based Financial Literacy Initiatives"](#)
- [Reaching New Customers Through the Earned Income Tax Credit](#)

### **Other**

- [FDIC Deposit Insurance](#)
- New America Foundation, ["Automating Savings in the Workplace,"](#) January 2010
- Center for Financial Services Innovation, ["Turning Today's Economic Inflection Point into Tomorrow's Savings Behavior,"](#) 2009
- [Consumer Federation of America, Understanding the Emergency Savings Needs of Low- and Moderate-Income Households: A Survey-Based Analysis of Impacts, Causes, and Remedies,](#) November 2008
- [The Consumer Federation of America and the Financial Services Roundtable's Best Practices for Automatic Savings](#)

<sup>8</sup> See §\_.12(i)–3 of the "Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestment Notice," 75 Federal Register 47 (11 March 2010). Pp. 11642-11680.