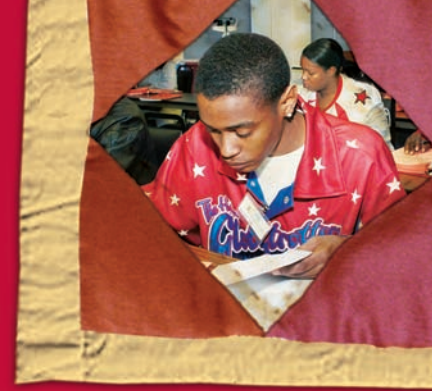


STRENGTHENING RURAL FAMILIES



Southern Bancorp and Southern Good Faith Fund: Tailoring financial services to help families get ahead

THE ANNIE E. CASEY FOUNDATION

Helena–West Helena, Ark.—In 2004, Southern Good Faith Fund (SGFF) got a wake-up call. A nonprofit group working to increase the income and assets of low-income, low-skill Delta residents in Arkansas and Mississippi, SGFF discovered that few graduates of its highly effective and well-regarded workforce program used other important services to help them move ahead financially—especially banking services to accumulate assets and build a secure financial future for their families.

The discovery came after SGFF surveyed its graduates in this struggling Mississippi River town and in Pine Bluff, Arkansas, to determine whether they used other services offered by SGFF or its parent company, Southern Bancorp (Southern)—a \$500 million multi-bank holding company that uses its for-profit subsidiary banks and nonprofit affiliates to promote community and economic development.

SGFF was surprised to find that only 3 percent of 145 graduates reported participating in other SGFF programs such as the Individual Development Account (IDA) program—matched savings accounts used for homeownership, post-secondary education and small business development. Only 34 percent had checking accounts and only 17 percent had savings

accounts—especially surprising given SGFF’s link to Helena–West Helena’s major local bank, First Bank of the Delta, a Southern subsidiary.

“The problem was confirmed and we started working on it,” says Angela Duran, SGFF president. SGFF teamed with other Southern organizations, including First Bank and Southern Financial Partners (SFP), to devise ways to better help Delta residents keep and grow their earnings. Strategies included:

- **Developing new bank products** to better meet low-income peoples’ needs.
- **Creating a financial ladder**, a conceptual model helping people progress to more mainstream asset-building products.
- **Better connecting participants with SGFF’s asset-building programs**, such as IDAs and SEED accounts (matched college savings accounts for pre-school children).
- **Better connecting participants with economic supports** in areas including social services, housing, education and health care. SGFF’s survey revealed that only 28 percent of its graduates used Food Stamps and only 7 percent used child care assistance.

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Southern's work to strengthen Delta communities dovetails with the guiding principle of the Annie E. Casey Foundation's work on behalf of vulnerable children:

Children do well when their families do well and families do better when they live in supportive communities.

SGFF's work aligns with Casey's promotion of a family economic success strategy, not just in urban America but in rural America as well.

Designed to assist low-income families in meeting their immediate and long-term financial needs, the rural family economic success (RuFES) strategy has three components. **"Earn It"** focuses on job readiness, good jobs with benefits, and helping families fill gaps by taking advantage of supports like tax credits. **"Keep It"** focuses on expanding affordable options for transportation, child care, housing, health care, and goods and services; building financial literacy; and combating predatory financial practices. **"Grow It"** emphasizes helping people save and accumulate assets, attracting business to communities and supporting entrepreneurs, improving community amenities, and promoting economic development strategies linked to the regional economy.

SGFF helps families "earn" by offering small business development assistance and a workforce training program called Career Pathways that encourages people to progress to higher-paying jobs within six fields including nursing and manufacturing. SGFF helps

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"keep" and



SGFF offers small business development assistance and a workforce training program called Career Pathways to help people move to higher-paying jobs within six fields including nursing and manufacturing.

"grow" their earnings by connecting them to economic supports, financial training, and banking services that enable them to spend wisely, save money, repair credit, avoid predatory lending, and buy a home.

"Low-income families work hard but face challenges to getting ahead," says Miriam Shark, a senior associate at the Casey Foundation who oversees its rural agenda. "By reinforcing low-income working families' efforts to help themselves, this multi-faceted effort helps them achieve their goal to attain financial security. It helps striving families become thriving families."

To better help people build savings and other assets, Southern plans to offer three new financial products:

- **The Stored Value Card (SVC)** provides a safe product for daily financial transactions that helps customers build a positive bank relationship. It operates like a debit card, but the account can't be overdrawn so overdraft fees aren't charged.
- **The Credit and Savings Builder CD** helps rebuild credit and build assets. For example, the customer takes out a loan for \$1,000 (or other amount), and uses the money to open a CD that secures a low-interest rate loan. The loan's term and payments are designed to be feasible. Once the loan is repaid, the customer has a positive credit experience and \$1,000 in savings.
- **The Tax Refund Savings Account** helps meet immediate needs and build assets. People using Southern's free

tax preparation service can "split" their refund—putting some money in a new savings account and using the rest for immediate needs.

These products encourage low-income people to bank—or bank better. “One reason why the low-income community is underserved is that mainstream financial institutions have not figured out what they need,” says Phil Baldwin, Southern’s president and chief executive officer. “They’re making money on higher-income individuals. Unfortunately there are a lot more poor folks than rich folks. But the products have to be what low-income folks need.”

And too often, low-income people with bank accounts can’t use them fully. They think they’re banked but when a check arrives, they withdraw all but a dollar, just to maintain the account, says Jimbo Boyd, First Bank’s president. “They use cash or a money order. They’re still (really) unbanked. Our challenge is to get people into a more mainstream bank product,” he adds.

Banking low-income people makes particular sense for financial services institutions in depressed economies that need customers. But it must be financially feasible. “I do need to get my costs covered,” says Boyd. “I’m not concerned about making money off Stored Value Cards. If I can convert people who use them into mainstream bank customers down the road, that’s where I’ll make money. And it’s an investment in our community.”

The new bank products also add new rungs—including that first big step, the SVC—so people can get on and move up the financial ladder toward mainstream products with more asset-building potential. “If people can be transitioned from using cash and money orders to using Stored Value Cards to a checking account, they’ve gone from being unbanked to partially banked to a traditional banking customer,” says Boyd.

SGFF connects families to economic support, services and training that enable families to save money, repair credit, and buy a home.



This financial ladder is also part of Southern’s broad strategy to assist low-income people by working toward three different goals—moving them toward better jobs, increased financial assets and improved housing. While moving up the financial ladder, people also are encouraged to move up career and housing ladders—using a range of services offered by a variety of Southern organizations. To purchase a house, for example, they might use credit counseling and an IDA from SGFF, a credit-building CD from First Bank, and a new mortgage product that SFP is developing.

“We want to give people the means and skills to really move forward,” says Ben Steinberg, president of SFP, a certified Community Development Financial Institution, which provides lending services to small business owners and homebuyers. “We’re developing a strategy where we’re all coming together and it’s in the interests of the customer. It’s leading us in a clear direction—a focused, integrated, comprehensive provision of services that will create a better quality of life in really depressed rural economies.”

The net effect of creating new financial products and helping families move up ladders toward improved jobs, financial assets and housing could be far-reaching, predicts Baldwin. “When customers are involved in all three areas, we really start to change lives,” he says. “A lot of folks live hand to mouth. If we can get them not to, the whole Delta economy (will) rise.”

Developing new financial products

SOUTHERN BANCORP REACHES OUT TO THE UNDERBANKED

At age 24, Kanaka Knowlton had a job, a house, and a checking and savings account. But in the summer of 2005, she was struggling.



Living in economically depressed Helena–West

Helena, Kanaka and her husband had low-wage jobs, plus a mortgage and a son to support. Short on money to pay utility bills, Kanaka occasionally bounced a check and was fined \$22 by the bank. To make ends meet, she got payday loans—costly short-term cash advances. “I don’t like them but if you need money they’ll give it to you,” says Kanaka of payday lenders. “I’m trying to catch up so I can save, but it’s hard.”

Low-paid and underbanked, Kanaka’s plight was common in the Delta. To develop new financial products for people like Kanaka, Southern examined innovative products available elsewhere. They also studied the local competition, including check cashing and payday loan operations, and interviewed residents about their daily financial practices and their response to several possible new bank products.

Southern also is exploring fresh ways to offer its products. “We don’t want the bank to be undignified. But there are some lessons we can learn from the way payday lenders market and deliver product,” says Duran.

How would the new financial products help Kanaka? An SVC would help avoid costly bank overdraft fees. The Tax Refund Savings Account would allow her to pay her immediate bills *and* start saving.

But asset-building alone won’t provide financial security. She needs more income. Currently working as a nursing assistant, which she trained for through SGFF’s

workforce program, Kanaka is taking classes to be eligible to move along the career pathway to become a Licensed Practical Nurse, a higher-paying job.

“Yes, it’s complex,” says Duran. “But it has to be. People have complex challenges that require complex solutions. They need a whole range of things—not just workforce training and a job. They may need help opening their first bank account or improving their credit scores so they can buy a house.”

Integrating financial and other services

SOUTHERN AND SGFF WORK TOGETHER TO HELP CUSTOMERS ESTABLISH GOOD JOBS, SAVINGS AND HOMEOWNERSHIP

Kimberly Jones arrived in Helena–West Helena with little. Today, she’s en route to providing financial security for her family—moving toward a good job, savings and homeownership.

Working as a nursing assistant, she plans to use SGFF’s Career Pathways to become a Licensed Practical Nurse. She’s set up a SEED account to help pay for one of her three daughters’ college education, and she’s using an IDA to become a homeowner. “I want a big house with a big yard so my children can get out and have fun,” says Kimberly, 25, who’s been living in a small rented apartment with no yard. Participating in the SEED and IDA programs has helped Kimberly focus on long-term saving. “If you’re willing to save, they’re willing to help you save to reach your goals,” says Kimberly, whose husband recently returned from military service in Iraq. “It’s taught me the value of holding onto the money and using it for something worthwhile.”

Kimberly got a foothold on the financial ladder by using Southern bank products. But other Delta residents need a leg up. Responding to its survey results, SGFF and its Southern partners are moving towards offering a seamlessly integrated suite of services. As part of this, Southern plans to test market its three new bank

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A growing movement

FINANCIAL INSTITUTIONS EXPAND TO SERVE LOW-INCOME FAMILIES

Across the country, financial services institutions are working to bank the unbanked and underbanked by providing products and services that address low-income families' immediate need for cash and their long-term need for savings. Here are two innovative examples, each offered by a community development credit union serving low-income people.

Combating payday lenders

ASI FEDERAL CREDIT UNION—HARAHAN, LOUISIANA

ASI Federal Credit Union in southern Louisiana has successfully launched a lower-cost alternative to a payday loan—a \$200 to \$1,000 revolving line of credit at 15 percent interest. These small “stretch loans” help low-income members weather a financial emergency. But ASI now wants more members—especially those successful with stretch loans—to use other bank products that help them get out of debt and build assets.

“If you don’t get them into the mode of learning how to save and build assets, they’re going to have to continually rely on these types of loans,” says Audrey Cerise, chief executive officer of ASI, which has 82,000 members—more than 60 percent of whom are low-income—in and around New Orleans and its surrounding rural communities. ASI offers:

- **An Asset-Builder Loan** of up to \$3,000 at 15 percent interest. With this loan, borrowers deposit \$15 into an interest-bearing savings account—accumulating savings for themselves while paying the loan. There’s no weekly fee. The number of people participating has more than doubled since 2004—to about 500. The average loan balance is \$1,143 and the average savings accumulated is \$264.
- **A Payday Rebuilder Loan** of up to \$2,500 at 15 percent interest, designed to help people pay off payday lenders over a period of up to 18 months. Borrowers must take a financial education class. This program has been funded partly through grants from the National Federation of Community Development Credit Unions used to offset the risk of defaults. To date, 36 people have participated, with an average loan of \$1,750.
- **Stretch Loans**—part of a broader package called the Stretch Plan—remain popular. Other benefits of the plan, which costs \$4 per week, include overdraft protection, a free refund anticipation loan at tax time, inexpensive money orders, free life insurance and a free checking account.
 - As of December 2004, 5,599 ASI members participated, with an average stretch loan balance of \$358. Another 1,789 members had enhanced loans (larger loans, based on successful repayment of a stretch loan), with an average balance of \$1,376. The loan volume almost doubled between 2002 and 2004 but has recently leveled off, a positive sign, says Cerise, that members who’ve succeeded with stretch loans are moving to more conventional loans.
 - Although financial services institutions risk losing money on a payday-type loan because of defaults, ASI has profited. To minimize defaults, only members with a six-month history of direct deposit participate. The loans are easily renewable and require little service. And ASI charges high enough fees to offset default losses. After deducting operating expenses, including \$360,921 for defaults, ASI’s 2004 net profit on these loans was \$776,319—\$105 per account.

The result is a win-win situation. Members get affordable help managing between paychecks and ASI increases loans with minimal cost. Ultimately, ASI

wants members to really move forward by graduating to the Asset-Builder Loan. “They don’t have a safety net and if you don’t help them build one, they’re going to continue to look to payday lenders,” says Cerise.

A path to self-sufficiency

ALTERNATIVES FEDERAL CREDIT UNION—ITHACA, NEW YORK

Serving 7,823 members in a seven-county central New York region known for farms and colleges, Alternatives Federal Credit Union’s membership is 62 percent low-to-moderate income and about 35 percent rural. Alternatives uses a conceptual model called the Credit Path to help low-income members build assets to become financially self-sufficient. The model defines four stages between poverty and self-sufficiency, people’s needs at each stage, and beneficial products and services:

Transactor: These are the unbanked or underbanked, often living paycheck to paycheck, focused on immediate, not long-term, financial concerns. Their main financial activity is basic transactions—cashing checks and paying bills. They often turn to fringe financial providers, such as check cashers, and pay high fees. In response, Alternatives offers affordable starter products—Stored Value Cards, check cashing, first accounts, money orders, currency exchange and international remittance (methods for sending money to overseas relatives). It also offers an alternative to payday loans, financial education, overdraft protection and free tax preparation.

Saver: These are traditional credit union customers. To encourage saving, Alternatives pays interest on all accounts with a \$5 minimum balance and charges no monthly fee. It offers a special starter CD (a 12-month CD purchased with a minimum of \$100) and Individual Development Accounts that provide a savings match and financial education.

Borrower: If these members borrow productively, they’re using an important financial tool for building wealth. If

they borrow unproductively, they can fall backward. To support productive borrowing, Alternatives offers financial education as well as starter loans members use to build good credit records including a credit-builder loan and the Refund Anticipation Loan. Alternatives offers consumer “step up loans”—for cars, personal loans, VISA cards and lines of credit. As members successfully pay off loans, they step up to larger loans.

Owner: Having learned to save and developed a good credit record, these people are moving toward owning a home or business. Alternatives offers a variety of home and business loan products.

“As a financial counseling tool, it’s been invaluable to be able to say ‘Here’s where you are’ and it enables (members) to distinguish between going backwards or forward,” says William Myers, Alternatives’ chief executive officer.

Alternatives has found two key components help move people swiftly and securely along the path to financial empowerment: Providing access to capital via a suite of financial services *and* financial education that helps people develop spending and savings plans, obtain business skills and plan for homeownership.

Alternatives also has responded to new challenges from the growing predatory lending industry by offering some similar products as these lenders but with fairer prices and terms. These include an affordable Refund Anticipation Loan, a short-term loan to people using Alternatives’ free income tax preparation service who want quick access to their tax refund, and an alternative to payday loans—one with lower interest and a longer repayment period. “The first step is creating a sense of hope. The simple act of saving a small amount each pay period helps people change their minds about the way the world is going to work for them,” says Myers. “It’s teaching people that their small decisions make a difference.”

Life in Helena–West Helena can be a struggle. The region's per capita income is \$12,000. But creating new financial products and helping families move up the financial ladder could lift the economy of the whole Delta area.

products in the Helena–West Helena area. The products then may be offered by other Southern subsidiary banks.

Low-income people face several barriers to banking, from financial to racial. A large recent survey of low-income households in three cities found that 22 percent were unbanked. Of those, 34 percent said the primary reason was lack of money. Other barriers included credit problems, lack of financial education or motivation.

Those with marred credit often go to a payday lender, despite the high interest. “I like the convenience,” says Gearldine Davis, 67, who got a payday loan to cover utilities and medication following surgery.

Particularly attractive to Gearldine is Southern’s new credit-building CD. She has a checking account and is interested in bank loans. But first she must clean up credit problems. “(The CD) will help low-income people get credit and get going again,” says Gearldine, a supervisor at a rehabilitation center for mentally retarded adults. “Anything that will improve your credit is good.”

Building a financial ladder for individuals creates a financial ladder for the community

“A lot of people my age, the first thing they want to do is leave,” says Michael Boone, 27, as he drives through Helena–West Helena, two cities that recently merged and have a combined population of about 15,000. From his car window, he points out signs of decline, but he also notes signs of progress. “There are lots of positive things happening but you have to get away from the negative side,” says Michael.

Turning down opportunities elsewhere after graduating from college, Michael works in Helena–West Helena for



Southern Financial Partners. “I came back here to try to make a difference and Southern wanted to do the same thing,” says Michael. “We need to give people hope. A lot of people have lost hope.”

In Phillips County, which includes Helena–West Helena, the average per capita income is roughly \$12,000. About one-third of the 26,000 residents have incomes below the poverty line. Particularly hard hit are African-Americans, who make up 59 percent of the population.

While two-thirds of all households have incomes below \$35,000, this is true for 80 percent of African-Americans. While 56 percent own their homes, only 43 percent of African-American households do. While an estimated 20 percent of the population is unbanked, this is true for about 30 percent of African-Americans.

As one of the nation’s largest rural development organizations, Southern is working to improve these statistics. While it has long offered many components to help families, Southern is working internally to make them more user-friendly by better connecting them. Each component becomes more powerful because it supports others.

At SGFF, “connectivity” has meant improving marketing and counseling in order to better connect participants to other products and services offered within its own shop, the Southern family and the community. Staff members make a more intentional effort to connect participants to community services, distributing information sheets that demystify offerings such as affordable housing options, social services and bank

products. “We’ve always had counseling but this gives them tools to do a better job,” says Duran.

SGFF is also encouraging participants to set long-term goals, especially by promoting tools like the IDA. “Say you have a fifth-grade education and want to be a nurse. Or you want to buy a house,” says Duran. “We help them map out a plan to get there.”

Southern organizations are also cross-marketing more, for instance by using a First Bank branch as a hub. Today, when working families enter First Bank’s Cherry Street building, they find supports to help them move ahead—traditional banking services and others not commonly found at a bank. SGFF is there to help with obtaining an IDA or small business counseling. SFP helps with obtaining an alternative loan. Southern Property Corporation, Southern’s housing arm, helps with finding low-income rental housing. “We all have staff there now so that makes the connectivity possible,” says Duran.

To help participants and other low-income residents access the Earned Income Tax Credit and avoid predatory tax refund services, Southern partners launched a Volunteer Income Tax Assistance (VITA) program. Ever on the lookout for cross-marketing options, Southern saw the VITA program as another golden opportunity.

While receiving this free tax return preparation service from bank volunteers, people learn about other Southern programs including SGFF’s IDAs, Career Pathways, and Business Development Center as well as bank products. During the 2006 tax season, people will be introduced

to the three new bank products. The development of the new bank products and financial ladder is one of Southern’s most ambitious collaborations aimed at revitalizing the Delta region.



“If you can change the life of a young mother... you’ve already changed the future for her children. If you can do that on a big scale, you’re lifting the boat.”

Too often, says Baldwin, efforts to help low-income communities have been ineffective because they haven’t been run in a comprehensive, collaborative fashion. “If we operate in independent silos, we’re only addressing pieces of the problem,” he says. “To have an effect on peoples’ lives, you have to bring the silos together so you’re addressing issues with financial products, with housing and, of course, with jobs.”

This approach, coupled with new financial products “will produce fundamental change,” says Baldwin. “If you can change the life of a young mother with five kids, you’ve already changed the future for her children. If you can do that on a big scale, you’re lifting the boat. Generating these financial products will build the community and change the lives of people.”

The Annie E. Casey Foundation is a private charitable organization dedicated to helping build better futures for disadvantaged children in the United States. It was established in 1948 by Jim Casey, one of the founders of UPS, and his siblings, who named the Foundation in honor of their mother. The primary mission of the Foundation is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today’s vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and neighborhoods fashion more innovative, cost-effective responses to these needs. For more information, visit the Foundation’s website at www.aecf.org.

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