

February 28, 2023  
CalAccount Blue Ribbon Commission  
915 Capitol Mall, Room 110  
Sacramento, CA 95814

Re: Market Analysis of the CalAccount Program

Dear CalAccount Blue Ribbon Commission:

The CalAccount Community Coalition collaborated with Assemblymember Miguel Santiago, the Legislature, the Treasurer's Office, and multiple stakeholders to implement AB 1177, the California Public Banking Option Act. We are writing to provide recommendations for the market analysis, which is essential in developing a no-fee, no-minimum balance account for Californians.

As advocates for low-income populations, we have witnessed firsthand the pressing need for this program in communities across the state. We urge the inclusion of the following areas in the market analysis:

*CalAccount Market Analysis*

Government Code section 100104, Section (4) includes a number of areas that the market analysis should address.

(4) The market analysis required by this subdivision shall also include an analysis of the population of California residents who are unbanked and the reasons they are unbanked.

*The analysis should include the following:*

- *History of redlining (including cumulative impacts of a lack of wealth accumulation on credit scores and the cost of banking);*
- *Analysis of gender and racial disparities for unbanked and underbanked populations;*
- *Impact on rural communities;*
- *Exploitation of active-duty military;*
- *Analysis of banking deserts, relative range of products offered compared with banking-rich areas. Banking deserts should include underserved, not just unserved;*
- *Presence of the underbanked, relationship to unbanked;*

From AB 1177:

(b) Access to basic financial services, including demand deposit (checking) and savings accounts, is a critical component of financial stability. One in four California households is unbanked or underbanked. Underbanked households are defined as those that have a bank account but have used alternative financial services (AFS) for transactions, including check cashing and

money orders, and for credit, including payday loans. Among underbanked households, AFS transaction use is three times more prevalent than the use of AFS for credit. Around 17 percent of United States households use AFS transactions. These transaction services can be a significant expense for low-income Californians. For example, check cashers charge as much as 10 percent of the cost of the check being cashed. In 2018, AFS costs for unbanked and underbanked Americans totaled \$189,000,000 in fees and interest, which means the average annual cost per person for using AFS was \$3,000.

(5) The market analysis required by this subdivision shall also include an analysis of the low-cost or no-cost options of federally insured transaction accounts that are available or marketed to unbanked California residents.

*The analysis should include the following:*

- *BankOn strengths and limitations;*
- *Critique of ChexSystems and its impact on the unbanked and underbanked;*
- *Current banks and prevalence of overdraft fees, minimum balance requirements, monthly fees;*
- *Prevalence of check cashing companies and the cost to workers;*
- *Employers use of prepaid cards and cost to workers in lieu of payroll checks;*
- *Emphasis on research in rural areas, such as in farming communities;*

*From the legislation:*

(c) Predatory banking practices, including expensive overdraft fees, create a vicious cycle leading to the lasting exclusion of Californians from traditional and affordable financial services and disproportionately harm low-income people and people of color. Banking options that target the poor generate significant revenue through these exploitative practices. In 2019, 84 percent of those fees were paid by 9 percent of account holders, and those customers typically carried low balances averaging less than \$350. According to the San Francisco Office of Financial Empowerment, rates of involuntary account closures were higher in counties with high African American populations as well as non-white "Other" populations. Involuntary account closures that are reported to reporting agencies like ChexSystems, which keeps records of customers' deposit account histories, can then lead to further exclusion from affordable financial services. The Consumer Financial Protection Bureau has found that, based on the most recent data from 2005, up to 19 million people had ChexSystems records. Although the majority of ChexSystems records result from repeated overdrafts, situations where the customer was a victim of fraud, or bank errors, a ChexSystems record can prevent a person from opening a new bank account, resulting in the unbanking of customers.

(7) The market analysis required by this subdivision shall also include recommendations for how the state can maximize the number of unbanked California residents who become banked at the lowest cost and risk to the state.

*The analysis should include the following:*

- *Benefit disbursement: infrastructure benefits for government and residents, e.g. EDD, stimulus payments, etc*
- *Consider surveying unbanked households to assess range of obstacles to opening accounts;*

(9) The market analysis required by this subdivision shall also include recommendations related to the appropriate governance structure for a public-private partnership such as the CalAccount Program.

*The analysis should include the following:*

- *Ease of enrollment and utilization for account holders and employers, including direct deposit*
- *Recommendations for collaborating with public, labor and NGO partners*

(10) The market analysis required by this subdivision shall also include an analysis of costs, benefits, and impacts on all affected parties, including, but not limited to, landlords, employers, state government, low-wage workers, and consumers.

Unbanked households pay proportionally more for their financial services, lack secure means of saving, have fewer opportunities to build credit, and are rejected for loans at far higher rates. Basic financial transactions, including the payment of rent, utilities, and other recurring bills or charitable contributions, are a particularly formidable challenge for households lacking access to important tools, including automated bill pay, or whose monthly income fluctuates too much to make automated processes viable. Because they have fewer options when their money runs short, unbanked households face a far more destructive cycle of punitive action when they default on their recurring bills, which leads to compounding interest and further debt. For all these reasons, exclusion from traditional financial services significantly increases the risk of poverty and homelessness and places an unnecessary burden on the entire economy.

*The analysis should include the following:*

- *Impact of CalAccount program on low income families*
  - *Quantify savings through elimination of fees and penalties*
  - *Quantify financial impacts of banking for unbanked CA*
  - *Accessibility of public benefits (Such as unemployment, GATE cards, etc)*
  - *Timely and reliable access to paychecks (including electronic payment, and ease of cashing paper checks)*
  - *Longer-term impacts tied to stable banking arrangements*

- *Low-income families have a need for automated banking services that are different from higher-income households. In order to automate bill-pay or contributions when account balances fluctuate, electronic payments may need to be tied to income received rather than simply a regular recurring bill payment. For example, an account holder might want to donate to a religious organization when they get their paycheck, rather than on a set day of every month.*
- *Benefits to state economy (economic multiplier effect)*
- *Gender differences*
- *Impact on rural communities*
  - *Public safety e.g. not using cash*
- *Potential positive impact for banks:*
  - *Increase future customers*
  - *Increase opportunities for partnership with community banks, BankOn institutions, public banks*

In addition, we have included a literature review of research related to the description of the need for this program in AB 1177.

From the legislation:

(d) Unbanked households pay proportionally more for their financial services, lack secure means of saving, have fewer opportunities to build credit, and are rejected for loans at far higher rates. Basic financial transactions, including the payment of rent, utilities, and other recurring bills or charitable contributions, are a particularly formidable challenge for households lacking access to important tools, including automated bill pay, or whose monthly income fluctuates too much to make automated processes viable. Because they have fewer options when their money runs short, unbanked households face a far more destructive cycle of punitive action when they default on their recurring bills, which leads to compounding interest and further debt. For all these reasons, exclusion from traditional financial services significantly increases the risk of poverty and homelessness and places an unnecessary burden on the entire economy.

(e) Limited access to affordable financial services is a problem that disproportionately impacts low-income communities and communities of color. In 2017, Californians earning less than \$15 per hour made up 80.7 percent of the unbanked in the state, and Black and Hispanic Californians made up 78.3 percent. Nearly half, 45.9 percent, of all Black-identifying households in California and 41.1 percent of all Hispanic-identifying households were unbanked or underbanked in 2017 compared to 15.5 percent of white-identifying households. Forty-four percent of disabled Californians in 2017 were also unbanked or underbanked.

(f) Providing Californians with a zero-fee, zero-penalty, zero-minimum-balance requirement public option for basic financial services would empower Californians by providing a stable, affordable financial platform for all Californians, especially the unbanked and underbanked who currently rely on expensive AFS transactions. The CalAccount Program would mitigate the

demand for exploitative alternatives to banking services with respect to which upselling and cross-selling into expensive accounts and products is the norm. A market analysis of the proposed CalAccount Program and any modifications that may be necessary for its successful and cost-effective implementation will enhance the state's ability to serve the financial services needs of unbanked and underbanked Californians.

## **Research**

### **Problems with current banking options and the need for CalAccount:**

- 1) The Cost of Financial Exclusion: Understanding the Impact of the unbanked in California [https://static1.squarespace.com/static/602cbf4db6168b10a62817f3/t/60cce903cca7252f8cd69dac/1624041732571/CostOfFinancialExclusion\\_May2021.pdf](https://static1.squarespace.com/static/602cbf4db6168b10a62817f3/t/60cce903cca7252f8cd69dac/1624041732571/CostOfFinancialExclusion_May2021.pdf)
- 2) AB 1177: CALIFORNIA BANKING OPTION ACT: Creating Universal Access to Bank Accounts with BankCal (pdf report, attached)

### **Scale of fees that credit unions and small banks charge to account holders:**

- 3) In 2021, CFPB researchers reported...that while overdraft and NSF fees were 13 to 19% lower at small banks and credit unions than at large banks, credit unions and small banks with an overdraft program earned \$42.33 and \$40.37 in annual overdraft revenue per account, respectively, which was just 6% and 11% less than large banks, respectively. -- <https://www.consumerfinance.gov/about-us/newsroom/cfpb-research-shows-banks-deep-dependence-on-overdraft-fees/> [no current research can explain to what extent changes to overdraft fee income during pandemic will continue in the future]

### **Prejudice and other barriers to opening bank accounts for people of color:**

- 4) Federal Reserve, Economic Well-Being of U.S. Households (SHED), May 2022: Shows that overdraft fees disproportionately fall on low-income depositors and on Black and Latino/a customers. <https://www.federalreserve.gov/publications/2022-economic-well-being-of-us-households-in-2021-banking-and-credit.htm>
- 5) Emily De Vito, Banking for the People: Lessons from California on the Failures of the Banking Status Quo, Roosevelt Institute, September 8, 2022. <https://rooseveltinstitute.org/publications/banking-for-the-people/>
- 6) Shy, Oz, and Joanna Stavins. 2022. "Who Is Paying All These Fees? An Empirical Analysis of Bank Account and Credit Card Fees." Federal Reserve Bank of Boston Research Department Working Papers No. 22-18. <https://doi.org/10.29412/res.wp.2022.18>

### **Banks taking advantage of account holders in violation of the law**

- 7) Prepared Remarks of CFPB Director Rohit Chopra on the Wells Fargo Law Enforcement Action, December 20, 2022. <https://www.consumerfinance.gov/about->

[us/newsroom/prepared-remarks-of-cfpb-director-rohit-chopra-on-the-wells-fargo-law-enforcement-action/](https://www.nytimes.com/2022/12/20/business/wells-fargo-consumer-loans-fine.html)

\$1.7B fine on Wells Fargo for, among other things, charging overdraft fees to depositors who hadn't actually overdrafted.

<https://www.nytimes.com/2022/12/20/business/wells-fargo-consumer-loans-fine.html>

- 8) SEC Commissioner Kara M. Stein, Dissenting Statement Regarding Certain Waivers Granted by the Commission for Certain Entities Pleading Guilty to Criminal Charges Involving Manipulation of Foreign Exchange Rates, May 21, 2015. <https://www.sec.gov/news/statement/stein-waivers-granted-dissenting-statement>

### **Extent of the unbanked and underbanked (numbers trended downward slightly during COVID, likely to rise during the current downturn)**

- 9) FDIC data on unbanked and underbanked:

#### **2017**

According to the FDIC, 7.4% of all California households are unbanked and 17.6% are underbanked, for a total of 25%. 44.0% of Black households are unbanked or underbanked (20.2% unbanked and 23.8% underbanked), as are 41.5% of Hispanic households (14.9% unbanked and 26.6% underbanked). FDIC, "Unbanked and underbanked for California, 2017 by Selected Household Characteristics," <https://economicinclusion.gov/custom-data/>.

#### **2021**

<https://www.fdic.gov/analysis/household-survey/index.html>

### **Exploration of the extent and scale of overdraft fees:**

- 10) Peter Smith et al., "Overdraft Fees: Banks Must Stop Gouging Consumers During the COVID-19 Crisis," Center for Responsible Lending, June 2020, pp. 3, 6, <https://www.responsiblelending.org/research-publication/banks-must-stop-gouging-consumers-during-covid-19-crisis>;
- 11) Mary Williams Walsh, "Banks Took \$11 Billion in Overdraft Fees in 2019, Group Says," New York Times, June 3, 2020. <https://www.nytimes.com/2020/06/03/business/banks-overdraft-fees.html>

### **History of Redlining**

- 12) Redlining connected to life expectancy, by city: <https://ncrc.org/holc-health/>  
13) Connecting old redlining scores to segregation: <https://ncrc.org/redlining-score/>

We believe that addressing the areas outlined in the market analysis is crucial to ensuring the CalAccount program's success in delivering safe and affordable financial services to all Californians.

The CalAccount Community Coalition welcomes the opportunity to engage in further dialogue with the Blue Ribbon Commission regarding our recommendations for issues to be addressed in the RFP. We are committed to ensuring that the market analysis is comprehensive and effective in addressing the needs of unbanked and underbanked Californians. We appreciate your consideration of our recommendations and are prepared to work with you to enhance access to financial services in our state.

Thank you for your attention to this matter.



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