

A. PURPOSE AND DESCRIPTION OF SERVICES

1. Background

The California Public Banking Option Act, Title 21.1 (commencing with Section 100100) of the Government Code (Assembly Bill 1177 (Chapter 451, Statutes of 2021)), established the CalAccount Blue Ribbon Commission (the Commission), and requires the Commission to, on or before July 1, 2024, conduct, by contracting with one or more entities with appropriate expertise, and deliver, as prescribed, a market analysis to determine if it is feasible to implement a “CalAccount Program,” which, if implemented, would have certain characteristics, including that it would be a program established by the state for the purpose of protecting consumers who lack access to traditional banking services from predatory, discriminatory, and costly alternatives, which offers Californians access to a voluntary, zero-fee, zero-penalty, federally insured transaction account, known as a CalAccount, and related payment services at no cost to accountholders, including robust and geographically diverse mechanisms for accessing account funds and account management tools that facilitate the automation of basic financial transactions designed to serve the needs of individuals with low or fluctuating income. The bill requires the Commission to hold a public hearing to review the market analysis and, after holding that hearing, authorizes the Commission to issue a report to accompany the market analysis.

Section 2 of the California Public Banking Option Act, states, “The Legislature finds and declares all of the following:

(a) With high unemployment rates, homelessness rising, and an unprecedented wave of evictions looming as a result of the COVID-19 pandemic, the financial stability of the state’s most vulnerable residents has become a matter of particularly urgent concern, not only to those individuals themselves but to the economic health of the state as a whole.

(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 \$189,000,000,000 in fees and interest, which means the average annual cost per person for using AFS was \$3,000.

(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 accountholders, 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.

(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.

(g) To the extent the state, to successfully implement the CalAccount Program, contracts with entities to provide administrative and financial services, the state has a proprietary interest in ensuring that the entities with which it contracts have not engaged in conduct that would undermine the goals, efficiency, and reputation of the CalAccount Program, including, but not limited to, by violating banking, consumer protection, fair lending, or fair housing laws.”

2. Purpose

The purpose of this solicitation is to obtain a qualified Contractor to conduct and deliver a market analysis to the Commission on the feasibility of implementing the CalAccount Program per the requirements set forth in this RFP.

The STO recognizes that the Contractor awarded the Agreement as a result of this RFP will face challenges that are inherent in the goals and scope of the work. For example, existing applicable census data from the FDIC may not adequately confirm or address some of the issues, questions, or statements posed in the RFP's Scope of Work or in pertinent reports. The STO therefore seeks a Contractor that will conduct original market research and analysis, not only using extant data, but also as necessary to fill in the gaps of information germane to the Scope of Work. The STO is seeking a Contractor with a robust set of expertise and experience responsive to the RFP's Scope of Work, and who may propose creative solutions to achieve a fully informed study, analysis, and report, as time and budget allow. The STO understands that each company may regard or discover that different social, economic, financial industry, and legal factors affect the possible solutions to achieving the goals of AB 1177, and therefore the STO appreciates that each company may approach the work of this study uniquely.

3. Resources

There are significant existing resources that companies can access. Just a few of them are listed here. It is the responsibility of the proposing company to discover other resources that it believes will be germane and useful in understanding the scope and depth of the problem to be studied.

The STO and Commission do not verify for accuracy any of the information contained within such resources. The information, recommendations, conclusions, and opinions are solely those of the authors and do not necessarily represent those of the STO and the Commission. Therefore, neither the STO and Commission can be responsible for any

inaccurate information, appearance of any inaccurate information, or for your use of the information.

At a minimum, companies are advised to understand these resources prior to developing their proposals.

- AB-1177, chaptered, available at https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB1177.
- The FDIC's report, *2021 National Survey of Unbanked and Underbanked Households*, and the survey instrument and data sets, are available at <https://www.fdic.gov/analysis/household-survey/index.html>. Note that data sets can be filtered by state.
- FDIC October 2022 press release of its 2021 survey, available at <https://www.fdic.gov/news/press-releases/2022/pr22075.html>.
- Information about financial technologies (fintech), including from:
 - The Federal Trade Commission, available at <https://www.ftc.gov/news-events/topics/consumer-finance/financial-technology>.
 - The U.S. Department of the Treasury, available at <https://home.treasury.gov/news/press-releases/jy1105>.
 - The U.S. Consumer Financial Protection Bureau, available at <https://www.consumerfinance.gov/about-us/newsroom/cfpb-invokes-dormant-authority-to-examine-nonbank-companies-posing-risks-to-consumers/>.
 - The National Consumer Law Center's 2019 overview report, *Fintech and Consumer Protection*, available at <https://www.nclc.org/resources/fintech-and-consumer-protection-a-snapshot/>.
- The BankOn program for low-cost/no-cost banking, available at <https://joinbankon.org/>.
- Information on bank fees and services:
 - The U.S. Consumer Financial Protection Bureau (CFPB), December 2021, available at <https://www.consumerfinance.gov/about-us/newsroom/cfpb-research-shows-banks-deep-dependence-on-overdraft-fees/>.

- CFPB October 2022, available at <https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-guidance-to-help-banks-avoid-charging-illegal-junk-fees-on-deposit-accounts/>.
- The Federal Reserve Bank of Boston, 2022, available at <https://doi.org/10.29412/res.wp.2022.18>.
- Federal Reserve, May 2022, available at <https://www.federalreserve.gov/publications/2022-economic-well-being-of-us-households-in-2021-banking-and-credit.htm>.
- Center for Responsible Lending, June 2020, available at <https://www.responsiblelending.org/research-publication/banks-must-stop-gouging-consumers-during-covid-19-crisis>.
- [The Roosevelt Institute, September 2022, available at https://rooseveltinstitute.org/publications/banking-for-the-people/](https://rooseveltinstitute.org/publications/banking-for-the-people/).
- CFPB information on student loan fees, October 2022, available at <https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-finds-high-fees-on-student-banking-products-endorsed-by-colleges/>.