

BANK ON CALIFORNIA: Bringing all Californians into the Financial Mainstream

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TOO MANY CALIFORNIANS LIVE OUTSIDE THE FINANCIAL MAINSTREAM

In California, 28 percent of adults don't have a checking or savings account, according to the US Census. Nationally, the estimate is that 10 percent of all households don't have accounts. In San Francisco, the Brookings Institution estimates that one in five San Francisco adults—and half of its Blacks and Latinos—don't have accounts.

The un-banked are most likely to be people of color, less educated, and have lower incomes. For example, a Harvard poll of Hurricane Katrina evacuees in the Superdome found that seven out of ten evacuees did not have checking or savings accounts.

THERE ARE PROFOUND COSTS OF BEING “UNBANKED”

The un-banked poor pay more to conduct their financial lives. Check cashing outlets typically charge between 2-3 percent of the face value of a check. So, someone who makes \$30,000 a year can pay \$900 a year just to get their salary and pay their bills. But there are more profound costs to being un-banked, costs that aren't readily apparent.

Families without accounts don't have a safe place to keep their money. They walk around with wads of cash in their pockets. Or they keep it at home in a coffee can. Robberies are more prevalent around check cashing outlets, according to San Francisco police reports. And if people's homes are broken into or there's a fire, they may lose their life's savings.

Also, a bank account is the first step to financial security for many families. Without an account, it's harder to get well-priced car loans, credit cards, or mortgages--the exact financial tools needed to climb up the economic ladder. Many families stay stuck on a different path--going to the pawn shops, pay day lenders, rent to own stores—where the interest rates can reach several hundred percent.

PROPOSED “BANK ON CALIFORNIA” LEGISLATION

The state can leverage its delivery of benefits—CalWorks, unemployment, and child support—to help bring unbanked Californians into the financial mainstream.

Legislators should consider introducing a measure to direct the state to begin sending benefits via direct deposit to benefit recipients' bank accounts. Caseworkers could be trained to educate recipients about the benefits of bank account ownership and help them open a low or no cost account at a local financial institution. If people did not open an account on their own, the state could open a limited use bank account for them, which would be attached to their existing benefit cards. CalWorks is currently delivered using a benefit card. Unemployment and childcare are still delivered by paper check, but should be also delivered by benefit card.

The state would benefit from this change in several ways:

- **Cost Savings and Reduced Error Rate** -- By beginning to send unemployment and child support by direct deposit or benefit card, the state would decrease the cost of producing checks and decrease their error rate.
- **Meeting CalWorks Program Goals** -- As account ownership is likely to lead to increased savings and stability, recipients would increase their chances of achieving the goal of CalWorks—preparation to enter and advance in the world of work.

Benefits recipients would also benefit in several ways:

- **Freedom from Predatory Lenders** – Benefits recipients would keep more of their benefits by having to rely less on alternative financial service providers such as check cashing outlets.
- **Improved Credit History and Savings** -- Recipients opening accounts would be taking the first step toward building a positive credit history and savings. Even if the benefit recipients did not elect to open an account on their own and instead were given a limited use bank account by the state, they would be able to save their benefits in their account, something they presently cannot do. Currently, benefits revert back to the state after 90 days if they are not used.
- **Increased Privacy and Consumer Protection** -- Also, CalWorks recipients would have greater privacy, in that the state could not track how and where benefits were spent, as they currently can. The temporary accounts could also be structured to have greater consumer protections, including being Regulation E compliant, which, among other things, requires that quarterly statements be sent to account holders.

OTHER STATES MOVING IN THIS DIRECTION

Illinois is training their caseworkers to actively promote direct deposit. The state also worked with the Chicago Federal Reserve Bank to create an online directory of financial institutions, including those with low and no cost accounts. The San Francisco Federal Reserve Bank could do the same for California. Caseworkers help recipients open an affordable account at a financial institution that is convenient to them. Illinois also allows TANF recipients to take a financial literacy class “Your Money and Your Life,” which can count toward their work requirements.

Some states, such as Indiana, Arizona, Massachusetts, Alaska, Nevada, attach “limited use” bank accounts to benefits cards. Oregon and Arizona deliver unemployment to benefit cards. In addition, many states deliver child support to benefits cards.

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