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SLIPPING BEHIND

Low-Income Los Angeles Households Drift Further from the Financial Mainstream



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SLIPPING BEHIND

Low-Income Los Angeles Households Drift Further from the Financial Mainstream

EXECUTIVE SUMMARY

Seventeen million Americans live without a bank account, exposing themselves to risks of monetary loss, fraud, and high costs associated with less regulated financial services markets.¹ In this two-phase longitudinal survey of 2,000 low-income Los Angeles households, the Pew Health Group's Safe Banking Opportunities Project aims to further local, state and national understanding of the financial needs of underserved populations in our urban centers and the opportunity for banks to capture this market. The study explores the connections between financial services, the populations they serve or are failing to serve and the financial stability of those populations.

Our in-depth survey of low-income households—1,000 with a bank account and 1,000 without—reveals three key findings:

- **Between 2009 and 2010, the ranks of the Unbanked increased, with more families leaving banking than opening bank accounts.** One-third (32 percent) of households that left banking cited unexpected or unexplained fees as their reason for closing their bank accounts; another 27 percent attributed their departure from banking to the loss of a job or lack of funds. Among all unbanked households, half (50 percent) report that they are unable to deposit the minimum balance required to open an account, up from 30 percent identifying this as a barrier to opening a bank account during the first phase of the survey. A local effort in Los Angeles to promote banking—the Bank on LA campaign—slowed the rate of departure from banking, but it could not overcome persistent concerns by the financially-stretched participants of the survey about hidden and unexpected bank fees and lack of sufficient funds for opening or maintaining accounts.
- **Opening an account is only the beginning of a beneficial banking relationship.** After overcoming the barriers to opening a bank account, low-income workers face new and additional obstacles to maintaining their bank accounts and to using those accounts to meet their financial services needs. Our study finds that banks hold significant service and location advantages over alternative financial services (AFS) providers: 79 percent of crossover respondents report that banks have better customer service than check cashers and 59 percent of crossover respondents prefer the location of banks to that of check cashers. However, these customers continue to supplement their depository accounts with services from AFS providers, citing the need to access their cash quickly (30 percent) and to purchase multiple services, like money orders and remittances, at one time (38 percent).

Definitions

Banked: Households with at least one checking or savings account at a bank or credit union.

Unbanked: Households that do not have a bank account and rely on non-bank alternative financial services providers for financial services or transactions.

Newly Banked: Households that did not have a bank account during the first phase of our survey and opened at least one bank account before the second phase of our survey.

Newly Unbanked: Households that closed all of their bank accounts between the first and second phases of our survey.

Crossover: Households with at least one bank account that regularly use non-bank providers for some financial services or transactions (sometimes popularly referred to as “underbanked”).

Cash Economy: Households that do not have a bank account and conduct all their financial dealings in cash.

- **Among the working poor, banking is associated with savings.** Even when faced with high rates of job loss and declining household income during the period of our survey, the Banked were better able to sustain their savings behaviors, including those associated with long-term goals such as paying for college. Eighty-eight percent of banked households have at least one savings account and, even in times of economic turmoil, 67 percent of the Banked actively save at least some of the time. Among the Unbanked, only 9 percent report being able to save.

Our analysis leads to the following policy recommendations:

Overcoming Barriers to Banking: The significant barriers preventing unbanked low-income households in Los Angeles from opening bank accounts are concerns about fees as well as a perceived lack of liquidity to meet the minimum opening balance requirements and lack of proper identification. Policy makers, banks and employers each have a role to play in making bank accounts more affordable and accessible to the working poor.

- Employers and government agencies can offer direct deposit to workers and recipients of public assistance.

- Government workforce placement programs can introduce bank accounts to the newly employed.
- Policy makers and the banking sector can use public-private collaborations to reach the Unbanked and to set safe terms for starter accounts.

Helping Families Stay Banked: Pew's research indicates that unexpected and unexplained fees drive low-income households away from banking. Banks and policy makers should take steps to reduce the surprise of these fees and increase transparency.

- Policy makers can require, and banks can implement, fair and transparent fees.
- Banks and banking regulators can end deposit delay and require depository institutions to post deposits and withdrawals in a fully-disclosed objective and neutral manner, such as chronological order, which does not maximize overdraft fees.
- Banks can increase the availability of ATM networks in low-income areas to reduce reliance by customers on out-of-network ATMs carrying high fees.

Encouraging the Building of Savings and Credit: Pew found that low-income households with bank accounts continue to rely on costly alternative financial services to meet their financial needs, while also seeking to use savings mechanisms. To encourage the working poor to build savings and credit, banks, community organizations, local leaders and policy makers can promote policies that allow households to use their bank accounts effectively and beneficially. Additionally, the use of AFS by banked households presents an opportunity for banks to utilize their competitive advantages to capture this market for revenue-generating financial services.

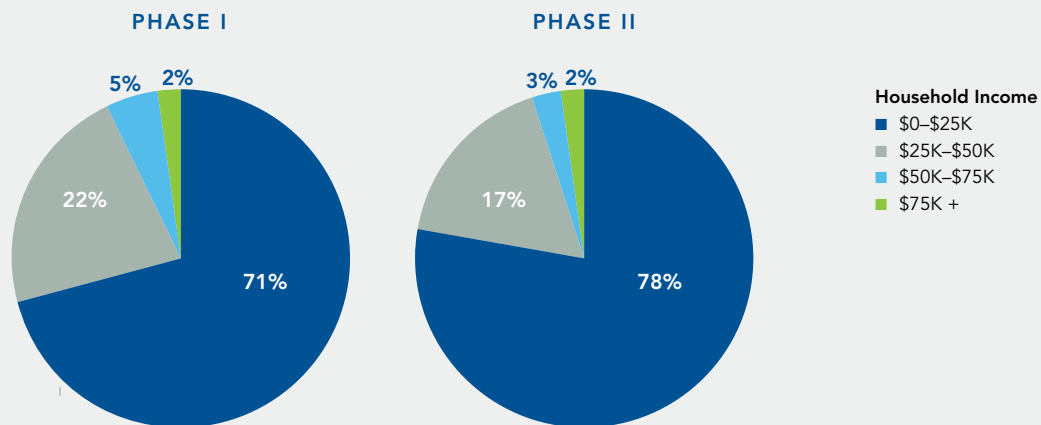
- Banks can provide a comprehensive suite of products including money orders, remittances, check cashing, bill pay services and personal loans.
- Community organizations, local governments, efforts to bank the Unbanked, like the Bank On programs, and depository institutions can provide financial education to help new customers manage costs and build up assets.
- Banks, policy makers and community organizations can capitalize on household aspirations to build family financial security by providing low-cost and easy-to-understand opportunities for savings and asset-building.

SURVEY RESPONDENTS

Our survey population is predominantly female and foreign-born and identifies as Hispanic/Latino. Between survey phases, there was a 28 percent attrition rate. Those who dropped out of the survey between phases were disproportionately male, residents of control neighborhoods (those not targeted in the initial phase of the Bank on LA program), earners of slightly higher incomes than the general survey population, voters in the United States and English-speakers. In Phase II, overall household incomes declined, with 78 percent of respondents reporting household incomes below \$25,000, up from the 71 percent who reported such income levels in Phase I. Additionally, the percentage of female respondents increased slightly, as did the percentage of foreign-born respondents. The mean age of respondents increased significantly, up eight years between Phase I and Phase II.

This population is the working poor with the vast majority of household income coming from employment. The form of income was very similar in both survey phases, with the majority of respondents in both phases being paid by check. Monthly expenditures rose slightly between phases, up \$19 for banked respondents in Phase II and \$44 for unbanked respondents in Phase II. For information on survey methodology, see the Appendix.

FIGURE 1 HOUSEHOLD INCOME SEGMENTATION, PHASE I AND PHASE II



Overall, respondents report lower household incomes in Phase II of our survey compared to data from Phase I, perhaps reflecting declining economic conditions. In both phases, most respondents had incomes below the federal poverty line for a family of four (\$22,350 in 2011, according to U.S. Department of Health and Human Services Poverty Guidelines).

INTRODUCTION

Banking is a cornerstone of financial security. A safe, affordable deposit account enables families to securely put away money, affordably pay bills and better plan for the future. Without government-insured checking accounts, low-income families operate on the financial fringe. These unbanked families, those without a checking or saving account, conduct business entirely in the cash economy or use costly alternative financial services (AFS) providers, including check-cashing outlets. Families without bank accounts struggle to meet their basic financial needs, much less save for a rainy day or long-term goals.

To inform public efforts that promote safe and affordable bank accounts, the Pew Health Group developed a portrait of the financial services usage and banking behaviors of low-income households in Los Angeles. In 2009, the Safe Banking Opportunities Project began a survey of 2,000 low-income households in Los Angeles, including 1,000 households with at least one bank account and 1,000 households with no bank accounts. The first phase of the survey was conducted from July to September 2009, followed by the second phase from May to September 2010. Our survey examined households in eight low-income neighborhoods around Los Angeles, including four targeted by the Bank on LA pilot effort to bank the Unbanked (see page 16).²

In July 2010, we published findings from Phase I of the survey in *Unbanked by Choice*.³ There, we reported on the different patterns of financial behavior among banked and unbanked families, delving deeply into the types of services used by low-income households and the factors influencing their participation in different segments of the financial marketplace. In Phase I, we found that most of the Unbanked have never had bank accounts and we identified the alternative strategies that these households use to manage their money.

This report builds on the findings presented in *Unbanked by Choice* to develop a more refined portrait of the financial behavior and needs of low-income communities in Los Angeles and to identify the effects that banking practices and the local efforts to bank the Unbanked have had on these communities. We seek to improve the effectiveness of efforts to bank the Unbanked and to promote policies that enable low-income families to maintain and fully use their bank accounts as productive clients of mainstream financial institutions.

Our analysis of the data gathered in this follow-up survey of financial services behaviors and household financial condition indicates the following key findings:

- **The unbanked population persists in Los Angeles.** Despite local efforts to bank the Unbanked, more families left banking than joined banking during the survey period. We find that there was slightly greater adoption of banking and significantly less movement out of banking in the neighborhoods targeted by Bank on LA, a public-private initiative to bring families into banking.

- **Low-income households in Los Angeles face successive barriers to getting a bank account, staying banked and using their accounts fully.** While households that had never had a bank account cited minimum opening balance requirements and lack of proper identification to open an account as the major reasons they remain unbanked, households that left banking most often cited unexpected or unexplained fees as their reason for closing their bank accounts. Many banked families—crossover customers—continue to use check cashers and other nonbank financial services because of concerns over transparency and liquidity. Getting unbanked individuals to open bank accounts is an important start, but it is only the beginning.
- **Banking is associated with savings among the working poor.** Those who had bank accounts were more likely to save and, in tough times, were better able to weather the economic storm. The Banked used ongoing savings mechanisms, rooted in their aspirations for a better future for themselves and their families. Banking mechanisms are tied to financial security by reducing costs spent on obtaining financial services, promoting saving and reducing the risk of cash loss.

KEY FINDINGS

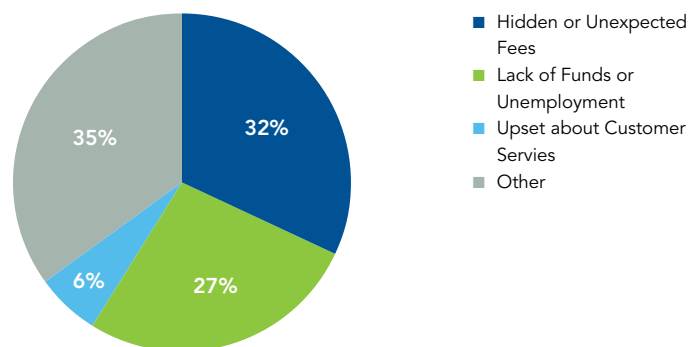
Following low-income Los Angeles households during a period of economic decline, our survey identified key factors in the departure from banking, challenges still facing local efforts to promote banking and patterns in financial services use and financial well-being.

THE UNBANKED POPULATION PERSISTS IN LOS ANGELES

Despite the efforts of the Bank on LA campaign, during the period of our research, more respondents became unbanked than became banked. While our survey was conducted during a period of severe job loss in the survey population, we found that the main reason households fell out of banking was not job loss but being hit with unexpected bank fees.

- Over a 12-month span, more people left banking than joined banking.** Between the two phases of the survey, 13 percent of respondents who had been banked in Phase I dropped their bank accounts and 8 percent of respondents who had been unbanked in Phase I opened checking accounts. The newly unbanked population, those who closed their bank accounts since the first survey, largely demographically mirrors the overall survey population.⁴
- Unexpected fees were the primary drivers of account closure.** The Newly Unbanked most often cite unexpected and unexplained fees as the reason for their departure from banking. One-third (32 percent) of the Newly Unbanked cite these fees; another quarter (27 percent) cite either lack of funds or unemployment. Small numbers of respondents cite poor customer service (6 percent), and all other options included in the survey were selected by less than 1 percent of respondents. One-third (35 percent) of newly unbanked individuals do not attribute their decision to end their banking relationship to any option available in our survey.⁵

FIGURE 2 REASONS FOR LEAVING THE BANKING SYSTEM



Hidden or unexpected fees are the most common reason that our respondents closed their bank accounts, followed by lack of funds or loss of job.

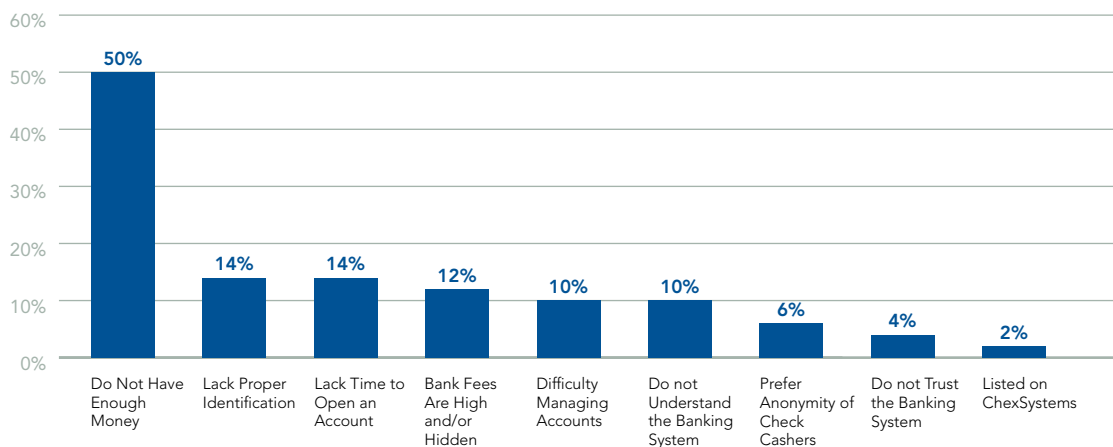
- **Overall, neighborhoods targeted by the Bank on LA pilot program did not account for more of the Newly Banked than did neighborhoods not targeted by the Bank on LA pilot.** The Newly Banked were evenly distributed across neighborhoods proportional to the distribution of successfully recontacted survey respondents. Newly banked individuals represented anywhere between 2 percent and 7 percent of all respondents in a given neighborhood. The neighborhood with the most significant increase in newly banked residents was Lincoln Heights, which was not a Bank on LA pilot site. Close behind Lincoln Heights were two Bank on LA pilot neighborhoods—Vernon Central and Boyle Heights. Each one had 6 percent of its respondents report that they had begun banking.
- **The Bank on LA program appears to have slowed the rate at which the city’s poor leave banking.** In six of the eight neighborhoods in our survey, respondents left the ranks of the Banked at a greater rate than they joined. The other two neighborhoods were essentially flat in this regard. In the four neighborhoods targeted by the Bank on LA pilot program, slightly more people left banking than entered banking. However, the net loss over the past 12 months in the four Bank on LA pilot neighborhoods (-1.25 percent) was less than half the net loss in the four control neighborhoods (-2.93 percent), a statistically significant difference.⁶
- **Brand awareness of Bank on LA is very low.** Overall, only 6 percent of respondents are familiar with Bank on LA by name. Awareness is highest among the Newly Banked (13 percent) and lowest among the Newly Unbanked (3 percent). Among all unbanked individuals, Bank on LA’s target population, 9 percent are familiar with the program. Among all survey respondents, awareness of the campaign in pilot neighborhoods (7 percent) was only slightly higher than in control neighborhoods (6 percent). Overall, more than half (54 percent) of the Unbanked report receiving some sort of literature encouraging them to open an account, though they did not identify it as coming from the Bank on LA campaign.
- **The Newly Unbanked rely heavily on the cash economy.** Most newly unbanked individuals rely on the cash economy, with 59 percent conducting business entirely in cash and another 26 percent conducting business mostly in cash with some use of AFS as well. One-quarter (28 percent) of the Newly Unbanked continue to save money, keeping cash hidden in a “secure place.” However, most of these savers (63 percent) are saving less than they did when they had a bank account.
- **While most of the Unbanked have never had a bank account, those who did previously have accounts chose to close them.** Among the Unbanked, more than half (58 percent) have never had a bank account. However, three in ten (30 percent) previously had a bank account and willingly closed it. Only 6 percent of the Unbanked previously had an account and now are unable to qualify for one, generally because of past trouble in maintaining sufficient funds to support a checking account.

THE LOW-INCOME POPULATION IN LOS ANGELES FACES SUCCESSIVE BARRIERS TO BANKING

The growing ranks of the Unbanked and Newly Unbanked, and the fact that many banked individuals also rely on alternative financial services providers, indicate that the low-income population in Los Angeles faces obstacles not only in opening an account, but also in keeping it open, and in using it to its full benefit to build savings and credit. The issues that prevent families from keeping and fully using an account are distinctly different than the problems that prevent them from opening an account.

- The primary obstacles to opening a bank account are minimum balance requirements, concern over hidden fees and perceived lack of proper identification.** Fully half (50 percent) of the Unbanked cite their perceived inability to deposit the minimum opening balance as a primary obstacle to opening an account.⁷ The impact of the barrier posed by this requirement grew significantly from the first phase of the survey, when less than a third (29 percent) of the Unbanked identified the minimum opening balance as a barrier to opening an account. Identification was another obstacle for many respondents. Although financial institutions have the legal authority to accept identification issued by foreign governments, 14 percent of unbanked individuals cite the lack of proper identification or documents as a reason for not having a checking or savings account. Fees are another issue: 12 percent of the Unbanked identify a concern with hidden or expensive bank fees as the primary reason they choose to remain unbanked. Other common barriers to opening a bank account include a lack of understanding about banking systems (10 percent), lack of time to open a bank account (14 percent) and difficulty managing accounts (10 percent). Only 2 percent of unbanked respondents report being unbanked because they appear on the watch list known as ChexSystems.⁸

FIGURE 3 REASONS FOR BEING UNBANKED



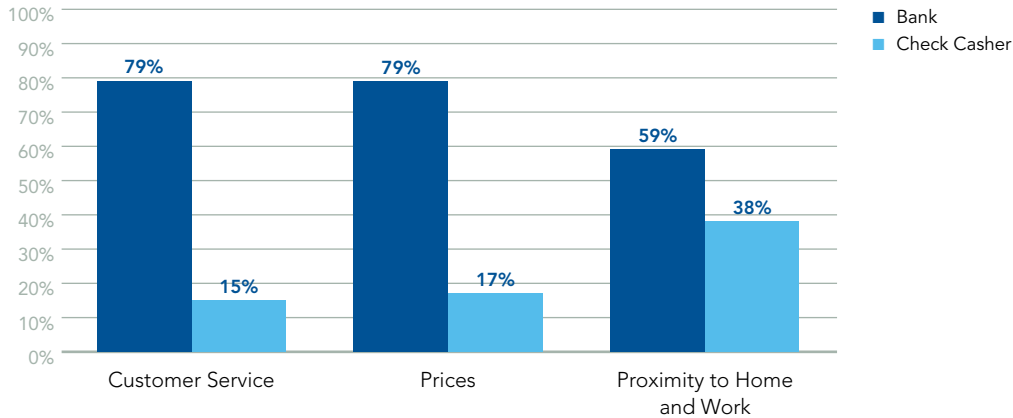
The Unbanked face numerous barriers to opening a bank account, including inability to deposit the account's minimum opening balance requirement, a perceived lack of necessary identification documents, and concerns about fees, account management and misunderstanding of the banking system.

- **Repeated ATM and overdraft fees make bank accounts expensive for this population.** Banked individuals in our survey use out-of-network ATMs frequently, incurring fees on more than half of their ATM transactions. We do not know whether this is due to a lack of ATM infrastructure in their neighborhoods or lack of understanding about how their banks' ATM systems work, but the collective impact of these fees is high. Fees for using an out-of-network ATM average \$3.74 per use.⁹ At the rate of use reported in our survey, these fees cost a banked individual \$162 each year. Banked individuals who incur out-of-network fees do so an average of 3.6 times per month. Expensive overdraft penalty fees also pose significant concern. Three in ten (29 percent) banked individuals had been charged an overdraft fee in the past seven to 12 months. Of those who overdrafted, 64 percent were charged multiple fees as a result.
- **Banked customers continue to use costly Alternative Financial Services (AFS) providers to obtain banking products that they perceive as providing greater control of funds and liquidity.** Almost one-third (31 percent) of banked individuals supplement their banking relationships with services from AFS providers. The most commonly used products are remittances (49 percent) and money orders or cashier's checks (34 percent). Another 10 percent of Crossovers—those who have a bank account and also use AFS—use these providers for check cashing. More than one-third (38 percent) of Crossovers indicate that they have bills that require a money order, and nearly all get their money orders from AFS providers rather than a bank. Four in ten (43 percent) of crossover customers using AFS bill pay services are concerned about timing of transaction posting and cash liquidity: over one-third of Crossovers (37 percent) indicate that they can pay bills faster at a storefront check casher than at a bank, and another 7 percent are specifically worried about bouncing a check if they use the bank.
- **Among the crossover customers, banks hold considerable advantages in location and customer service.** On both customer service and prices, 79 percent of crossover customers prefer banks to check cashers. For proximity to home or work, 59 percent of crossover customers prefer banks to check cashers. Among crossover customers, nearly one-third (30 percent) report using AFS because they need access to their cash quickly. Another 38 percent of Crossovers use check cashers because these providers enable customers to purchase several services at one time.

FIGURE 4 COMPONENTS OF CONVENIENCE

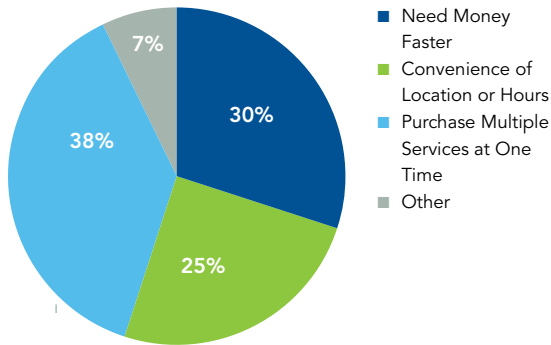
Banks compete effectively on customer service, location and prices ...

Which financial services provider is better on the following?

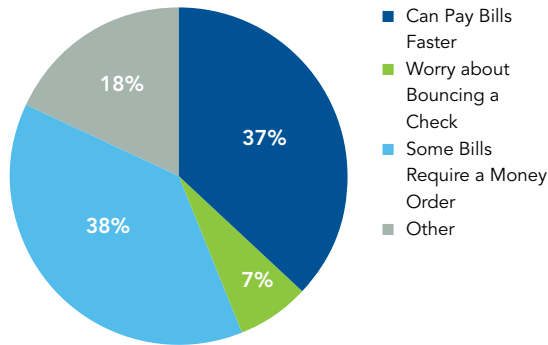


... but fall behind on transaction timing and product offerings.

Why do you use a check casher?



Why do you pay bills at a check casher?



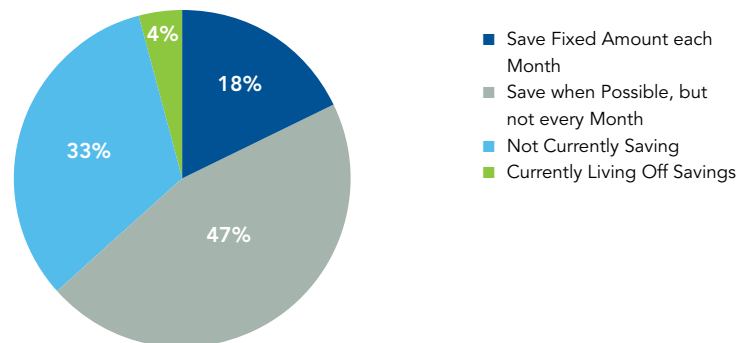
Customers who have bank accounts and also use alternative financial services providers rank banks higher than check cashers on customer service, location and prices. However, these customers continue to use check cashers to meet their financial services needs because of concerns about transaction timing, liquidity and product offerings.

BANKING IS TIED TO FAMILY ECONOMIC SECURITY

- The Banked utilize savings mechanisms and linked accounts.** Nearly all banked respondents (94 percent) keep at least some of their extra money in a financial institution, and almost as many (88 percent) have at least one savings account in their name. Among these savings accounts, 29 percent are being used for long-term goals, including paying for education, home ownership and retirement. One-third (33 percent) of banked respondents in this phase of the survey report that they do not save at all. However, nearly half of the Banked (47 percent) save when they can. One-third (34 percent) of the Banked use an automatic savings feature to move money regularly from a checking account to a savings account. One-quarter (24 percent) of the Banked move money between accounts as needed to manage cash flow. Almost one-fifth (19 percent) have an overdraft transfer feature linked to their savings account.

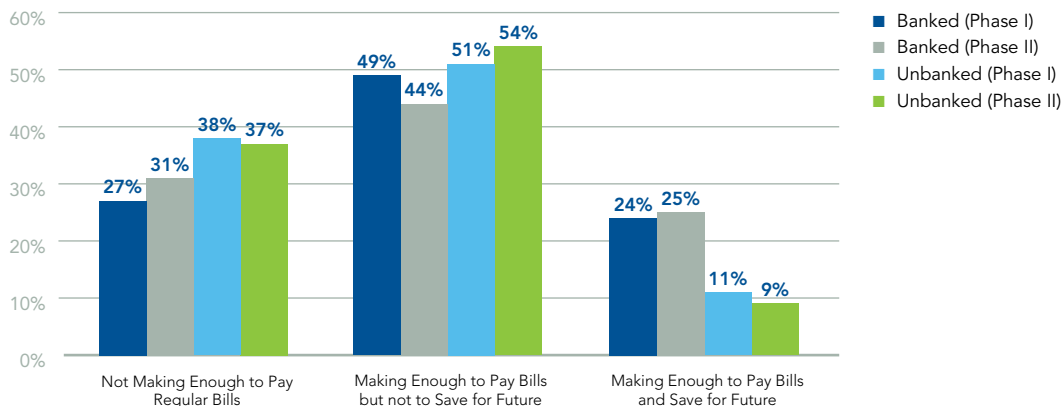
FIGURE 5 SAVINGS BEHAVIOR OF THE BANKED

How would you characterize your savings behavior?



Those with bank accounts save either regularly or when they can, and some are saving for long-term goals like paying for a college education. Percentages may not add to 100 due to rounding.

- In times of economic decline, the Banked fare better.** The majority of households in both banked and unbanked populations live below the poverty line.¹⁰ While both groups experienced similar rates of decline in household income between Phase I and Phase II of the survey, the Banked were better able to keep their heads above water. Over the 12-month study period, 41 percent of the Banked and 45 percent of the Unbanked report declines in household income. In characterizing their overall financial situation, 16 percent of all respondents indicate that they make enough money to pay bills and save for the future. Among banked individuals, 25 percent are able to pay bills and also save for the future. This rate has held steady in the nearly 12 months between survey phases. Among unbanked individuals, only 9 percent report making enough money to pay bills and save for the future, down from 11 percent in the first phase of the survey. The cash-only subsegment of the Unbanked fares worst, with 5 percent of cash-only respondents reporting that they make enough money to pay bills and save for the future.

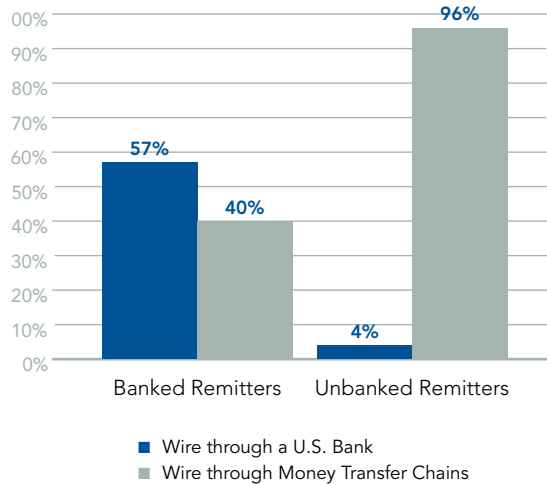
FIGURE 6 RANKING OF FINANCIAL HEALTH
Financial health of Banked and Unbanked


In Phase II of the survey, the banked respondents continued to rate their financial health as in better shape than did the unbanked respondents—one-quarter (25 percent) of the Banked say they are making enough to pay their bills and even save, compared to just 9 percent of their unbanked counterparts. Moreover, a greater number of the Unbanked indicate they are not making enough to pay their regular bills.

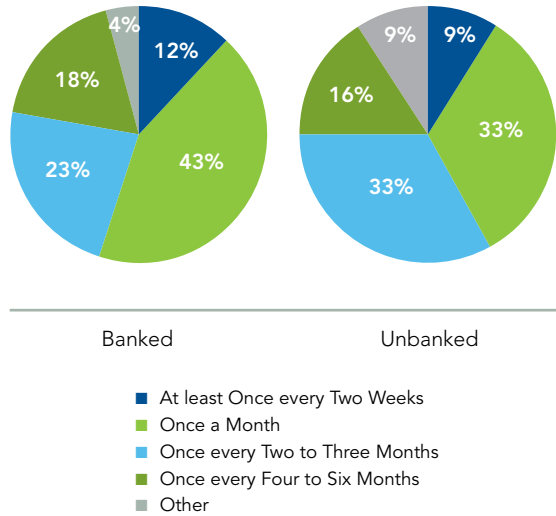
- The Unbanked are somewhat more likely to struggle to pay their bills.** Over one-third of the Unbanked (37 percent) report being unable to pay all of their bills. Within that group, 41 percent of respondents in the cash-only subsegment indicate this same trouble. The Banked fared a bit better, with 31 percent reporting inability to pay all of their bills.
- The Banked continue to set earnings aside through remittances.** This largely foreign-born population sets a significant percentage of their earnings aside in the form of remittances sent back to family in their country of origin. While the frequency of remittances is comparable between banked and unbanked respondents—55 percent of the Unbanked and 52 percent of the Banked transfer money two or more times per month—the average amount transferred is significantly higher among the Banked. The data also show that the Banked remitted more money than the Unbanked in both phases of the survey and increased their remittance amounts over the period of the survey, despite suffering job loss. Specifically, the Banked remitted on average \$210/month in the first phase and \$261/month in the second. In contrast, the average amount remitted by the Unbanked declined from \$199/month to \$181/month over the survey interval.

FIGURE 7 REMITTANCE USAGE

Most frequent method to send money to family and friends



Frequency of remittance to family and friends



Among those in the ranks of the Unbanked who remit money to family overseas, nearly all wire money through a money transfer shop. Among the Banked, 40 percent leave the bank to send their remittances. Both the Unbanked and Banked remit frequently.

- **Cash security is a significant concern for participants in the cash economy.** One-fifth (19 percent) of the unbanked population transact in cash whenever possible. The preference for the cash economy is slightly down compared to the first phase of the survey (29 percent). Close to one-fifth (18 percent) of individuals who rely on the cash economy have been victims of cash loss, whether by theft, damage or loss. Nearly all of these individuals have experienced a cash loss within the past year (90 percent) or within the past three years (98 percent). Among the Unbanked who have experienced cash loss, the average loss was \$729, equal to nearly two weeks of the respondents' average household expenses.

DISCUSSION

ASSESSING THE IMPACT OF BANK ON LA IN THE FACE OF A NET DECLINE IN BANKING

In March 2009, the City of Los Angeles launched the Bank on LA campaign. The initiative sought to move the working poor up the rungs of the economic ladder by building financial security through safe and affordable banking. For this effort, the City of Los Angeles relied on the model set by San Francisco and embraced by the US Conference of Mayors: partnering with banks and credit unions to offer and market low-cost checking accounts to low-income households. While housed within the city, Bank on LA built a partnership by engaging foundations, the United Way of Los Angeles, the Federal Reserve Bank of San Francisco, the FDIC and social science researchers.¹¹ Bank on LA initially targeted four pilot neighborhoods: Vernon Central, Westlake Pico Union, Pacoima and Boyle Heights. In the summer of 2010, during the second phase of our data collection, the program expanded citywide.¹²

Our research suggests that Bank on LA helped low-income households in greater Los Angeles to open and maintain bank accounts. The pilot neighborhoods experienced smaller overall net loss in banked respondents compared to control neighborhoods that were outside of Bank on LA's initial operation. The net decline in banking in the control neighborhoods is, on average, more than twice as large as the net decline in banking in the pilot neighborhoods. The net decline in banking by low-income families is unfortunate, but Bank on LA appears to have stemmed the bleeding and to have helped move some households toward the financial mainstream.

Success in promoting banking also appears to correlate with employment. Unemployment is high in all eight neighborhoods in our survey and increased over the past year in six of the eight neighborhoods. However, the neighborhoods with the best employment figures showed the most traction in opening bank accounts. Vernon Central and Lincoln Heights, the neighborhoods with the lowest rates of unemployment, held steady in their banking figures. In sharp contrast, Watts and Baldwin Village, the neighborhoods with the highest rates of overall unemployment, experienced the greatest net loss in banking. Overall, the control neighborhoods experienced greater unemployment than neighborhoods that Bank on LA targeted, and more residents in the control areas gave up their bank accounts. Because Bank on LA is integrated into other municipal poverty alleviation programs, these findings may reflect the activity of such programs in the targeted pilot neighborhoods. Conversely, these findings could indicate that integrating programs like Bank on LA into jobs programs may provide an effective avenue for increasing banking among the working poor.

Our findings on the Bank on LA pilot suggest that an outreach effort needs to be run as a vigorous and explicit campaign to maximize the goal of connecting underserved populations with low-cost bank accounts. Bank on LA suffers from low brand awareness.¹³

More than half of the Unbanked received some sort of literature encouraging them to open a bank account, but only 9 percent were aware of Bank on LA by name. On a positive note, the Newly Banked is the group that reports the highest rate of awareness of Bank on LA (13 percent), an indication the program may have had some success. Brand awareness matters because Bank on LA promotes each participant bank's account that is best able to support new entrants to banking. If new entrants to banking do not ask for and receive the Bank on LA starter account, the efforts to move low-income households into the financial mainstream may be undermined by bank accounts with hidden and unexpected fees. Thus, while low-income households may have begun to hear more about banking opportunities, the message was not necessarily linked to the Bank on LA brand and did not carry the same assurances of a safe, low-cost starter account that the program is designed to provide.

Bank on LA also faced structural challenges. The nearly 10 million people in Los Angeles County are spread across an expansive geography, and the neighborhoods targeted by the campaign are diverse in culture, history and infrastructure.¹⁴ Local efforts may reasonably seek to reach all the targeted residents of a city, but the structure of the Los Angeles municipal area renders it a difficult place to organize.

Bank on LA is not a freestanding campaign with dedicated funding and political support. The program is contained within the City of Los Angeles Community Development Department and integrated into existing contracts with nonprofit agencies providing services funded by the city. Further, unlike San Francisco, the City of Los Angeles did not leverage its position as a major employer, depositor and investor to encourage banks to engage with low-income communities.¹⁵ Integrating the message of Bank on LA into city contracts may provide deeper institutional support than a targeted but temporary and politicized public campaign could offer, and may take advantage of existing channels to deliver this new service. However, this structure may also have further buried the brand awareness of Bank on LA and reduced potential benefits of a more visible campaign.¹⁶

IDENTIFYING AND OVERCOMING BARRIERS TO BANKING, STAYING BANKED AND USING ACCOUNTS EFFECTIVELY

Our survey finds that working poor households in Los Angeles face barriers to banking at each step of the way. These families struggle to open bank accounts, keep those accounts open in times of economic distress, and fully and effectively utilize banking services. Costly overdraft and ATM fees, regular use of alternative financial services and the growth in the number of the Newly Unbanked indicate that the Banked in these low-income communities face persistent barriers to effectively and beneficially using their bank accounts. Thus, strategies that address only barriers to entry are unlikely to yield long-term results.

Barriers to Entry

The barriers to entering banking remain high. Most unbanked individuals in the low-income neighborhoods of Los Angeles have never had a bank account. The majority of unbanked individuals report they do not have enough money to meet the minimum balance required to open an account. Even for those households with a bank account, banks too often fail to offer at reasonable prices the basic products sought by this population. Finally, a perception that banks charge excessive and hidden fees further dissuades unbanked individuals from beginning a banking relationship.

The median minimum balance required to open a checking account at the six largest banks in California, encompassing 63 percent of total deposits in the state, is \$50.¹⁷ The working poor struggle to tie up this amount of cash and therefore often turn to costly transactions with AFS providers to meet their daily financial services needs. By lowering minimum balance requirements, providing mechanisms for new account holders to reach these thresholds incrementally or waiving balance requirements for customers with a minimum direct deposit, banks likely would be able to recruit more customers from working, multi-earner households that use a broad range of financial products.

By encouraging the use of direct deposit among employees, employers can help steer families toward banking and enable employees to take advantage of account features that waive minimum balance requirements and reduce fees for accounts paired with direct deposit.¹⁸ Promotion of direct deposit by employers, including state and local governments, and by banks could move more working families into banking, enhance economic security and save workers hundreds of dollars each year in check-cashing fees. Our survey finds that although the vast majority of family income comes from employment, only 15 percent of respondents are paid by direct deposit, which, by definition, requires a bank account or a prepaid card. Two-thirds (68 percent) of working respondents receive paper checks.

As with direct deposit from employers, direct deposit from public programs can move families toward banking by helping low-income families avoid monthly fees and meet the minimum opening balance requirements. Only 11 percent of recipients of public assistance in our survey obtain their benefits via direct deposit into a bank account. In contrast, 38 percent of respondents receiving this assistance do so via electronic benefit transfer (EBT). These individuals receive their public assistance via a debit card similar to a bank card but not tied to a general checking account. Utilizing the debit card reduces the risk of cash loss and may encourage comfort with the banking system, but may include costly fees and may not provide the full benefits of a federally regulated and insured bank account.¹⁹ To the extent that state law and practice steer recipients of public assistance away from direct deposit and bank accounts into a system that is less regulated and has less capacity for building savings and credit, it may undercut the goal of helping low-income families join the financial mainstream.

The survey population is largely foreign born.²⁰ Although financial institutions have the legal authority to accept identification issued by foreign governments, 14 percent of unbanked individuals cite the lack of proper identification as a reason for not having a checking or savings account. The persistence of lack of identification as a barrier to opening a bank account may be due to fear among foreign-born populations that the requirements of banking will make them vulnerable to deportation, lack of information about the ability to open accounts with alternative identification cards, such as the Mexican Matrícula Consular, and refusal on the part of banks to accept such forms of identification.

More than half of respondents report that an important factor in their choice of a bank is if a specific bank shows respect for their culture. Eighty-one percent of respondents took our survey in Spanish, including 85 percent of the Unbanked. To thrive in the low-income neighborhoods of Los Angeles, banks and credit unions need Spanish-speaking staff, transaction materials in Spanish and a welcoming approach to the Latino population.

Finally, the lack of familiarity with the banking system reported by many of the Unbanked signals a need for the use of neighborhood assets and trusted advisers and calls for the public support of local leaders to communicate a message about safe banking opportunities. A successful community outreach plan might capitalize on neighborhood assets to spread the news about the availability of low-cost accounts, banking institutions that will work with the target population and the acceptance of alternative forms of identification.

Barriers to Maintenance

Overcoming the barriers to joining banking is a significant achievement, but only the beginning. At the close of our survey, the number of the Newly Unbanked exceeded the number of the Newly Banked, despite local efforts to promote banking. This suggests there is a strong need to address barriers faced by low-income communities to maintaining a bank account as well as the barriers to getting one.

Our survey illuminates the economic fragility of these families: half of the Newly Unbanked report losing their job between survey phases, and a quarter of the Newly Unbanked cite the loss of a job or lack of funds as the reason for dropping their accounts. The median duration of a bank account that has been recently closed was three years. Those who close these accounts are not recent arrivals to banking. Rather, they are established but economically vulnerable banking customers who run into financial barriers and hidden fees that push them out of the banking system.

The reason most often given for dropping out of banking was hidden and unexpected fees, followed by loss of a job or lack of funds. In other words, bank fees have a more detrimental impact on the ability of working poor families to keep a bank account than an event generally considered to be one of the greatest economic shocks to a household: job loss. One-third of newly unbanked individuals cite unexpected or unexplained fees as their reason for becoming unbanked.

Account closure due to fees appears to stem from the lack of transparency by banks about fee structures. Low-income populations with low high-school graduation rates may have a particularly hard time understanding even basic checking account fees when they are buried within the median 111 pages of a checking account disclosure statement.²¹ Low-income customers are also less able to avoid basic banking fees. Many bank accounts waive monthly maintenance fees when the account holder utilizes the direct deposit option. With low rates of direct deposit, however, the low-income population in Los Angeles largely misses out on this opportunity to avoid the basic monthly fees associated with banking.

For this population, the cost of overdraft fees is amplified by successive overdrafts or inability to repay overdrafts in the time before a second fee is assessed for the same transaction. Nearly two-thirds of banked respondents who overdrafted their accounts incurred multiple fees as a result. Lack of clarity about overdraft options and hidden bank practices that maximize overdraft fees hit this group especially hard and can discourage banking.²²

This tenuously banked population also incurs unduly high fees due to their regular use of out-of-network ATMs. All banked respondents use out-of-network ATMs an average of once per month, and for those reporting any usage, they average 3.6 times per month. The cause of costly ATM use is unclear. The survey population may not fully understand the costs associated with using out-of-network ATMs, or banks may not support adequate ATM infrastructures in low-income neighborhoods.

Once these barriers are overcome, newly banked customers report high levels of satisfaction. Individuals who decided to begin a banking relationship perceived banks positively and were sufficiently prepared to open an account. Further, banks and credit unions, in the short run, have not disappointed their new customers. This satisfaction presents a ripe opportunity for banks to engage with new customers, build relationships and expand relevant offerings.

Barriers to Effective Usage

Low-income customers who have a bank account continue to make use of AFS providers in part because of “convenience.” For proximity to home or work, customer service, prices and language accommodation, banks and credit unions receive significantly higher ratings by crossover customers than do check cashers. However, low-income customers point to two components of “convenience” that AFS providers offer that they view as better than what they can get at banks.

One nuanced conception of convenience is the availability of a comprehensive suite of products, and the other is confidence in the timing of transactions. Our survey finds that crossover customers using check cashers most often do so because they can purchase several services at the same time. Customers also report that they can pay bills faster by way of a check casher. Crossover customers who cash checks through AFS report that

they choose AFS due to concerns about liquidity and timing of deposit posting. Bank deposit delays prompt banked customers to utilize AFS for check cashing. Moreover, transaction reordering by banks results in multiple overdrafts with high overdraft fees for these customers.²³ By using check cashers, low-income customers seek to avoid these costs and uncertainty.

Our survey indicates that this demographic would use four to six revenue-generating transactions each month, services that low-income households currently purchase from AFS providers. For example, four in ten banked customers who also use AFS report having bills that require a money order. This is a common bill-paying practice in low-income neighborhoods where landlords and other creditors refuse to accept personal checks. The foreign-born population also commonly utilizes remittances. Still, only 17 percent of banked respondents report that they would use a bank or credit union to send a remittance or money transfer. Most make these transactions using check-cashing services.

As with overcoming barriers to entering banking, the form of payment by employers to workers and of government benefits can encourage more effective usage of a bank account. Because direct deposit generally requires workers to have a bank account, employers and benefit providers that offer it can create incentives for the working poor to open and maintain checking accounts. Direct deposit also encourages the use of automatic savings plans and helps account holders avoid costly check-cashing fees, improve liquidity, and assuage concerns about the timing of deposits and payments. However, the increasing use of prepaid cards as an alternative to checking accounts presents both an opportunity for and a challenge to banks to respond to innovations in payment systems.²⁴

Finally, underlying the conversation about successive barriers to banking is the finding that the population in our survey is part of the working poor. Among survey respondents, 91 percent of family income comes from employment. Further, 43 percent of households saw their total household income drop in the past year. As low-income working families, these households are economically vulnerable. By limiting opportunities to build capital and by making consumer financial products expensive, the characteristics of the local financial services infrastructure exacerbate that vulnerability.

BANKING IS ASSOCIATED WITH GREATER FINANCIAL SECURITY AND ASSET-BUILDING

For families in the low-income communities of Los Angeles, banking is associated with spending less on financial services, greater use of savings, including remittances, and lower risk of cash loss.²⁵ Banked and unbanked households report similar declines in household income between phases of our survey, but the Banked are keeping their heads just above water, while the financial condition of the Unbanked slips further.

As previously unbanked families begin to rely on banking services, thereby reducing the vulnerabilities associated with the cash economy and avoiding high fees of alternative

financial services, they begin saving money. Our comparison of the costs of using bank services compared to AFS services in these study neighborhoods showed that purchasing the financial services from AFS providers consumed 6 percent of an average household's income, while purchasing the same services at a bank represented half a percent—an order of magnitude difference. The funds spent on AFS can be saved.²⁶

The savings behaviors associated with banking allow families to smooth household finances during times of economic turbulence. Nearly as many banked as unbanked respondents saw their household income decrease in the past year, but the Banked continue to report better overall financial situations compared to the Unbanked. Household savings help staunch the outward flow of capital from low-income communities, enabling the development of assets for family and individual aspirations.

Our survey indicates that the Banked actively use available savings mechanisms: almost all banked individuals keep some of their extra money in a bank account, and nearly as many hold at least one savings account. Indeed, in Phase II of the study, the Banked report saving more often than they did in Phase I. They saved more than the Unbanked in both survey phases despite similar rates of job attrition and declines in household income for both groups. The underlying economic circumstances of these low-income families remain a critical determinant of their ability to regularly save, but those that can afford to save report doing so.

Because the vast majority of our survey population relies on earned income, being banked opens a portal to government programs to support the working poor. The Banked are far more likely than the Unbanked to file tax returns and benefit from the Earned Income Tax Credit (EITC). Supplementing the income of low-wage workers through a refundable tax credit, the EITC is one of the most significant poverty alleviation programs for working families in the United States. In tax year 2006, the EITC returned approximately \$1.5 billion to families in Los Angeles County.²⁷ Our research found that close to three-quarters (72 percent) of respondents who filed taxes received a refund, with many of these including EITC payments. More than two-thirds (68 percent) of the Banked filed their 2009 tax returns; only 38 percent of the Unbanked did so. Among low-income residents of Los Angeles, having a bank account improves the likelihood of obtaining the EITC payment and its significant financial benefit.

Financial security and banking are deeply tied to aspiration and economic mobility. Families that save report designating their savings for long-term goals, including education, home ownership and retirement. In the short term, having a savings account facilitates greater financial stability, enabling families to keep their heads above water in declining economic times.

CONCLUSION

There is a role for banks, government, community groups, employers and consumers in making sure everybody has the opportunity to participate fully in the financial mainstream. Financial institutions can enable families to bank and save as productive clients by offering accounts with low minimum opening balance requirements, reasonable and transparent fees, and a comprehensive suite of financial products that meet the needs of low- and moderate-income families. To help families stay banked, banks should adopt neutral and objective transaction sequencing that is not designed to maximize overdraft penalties. Local governments and financial institutions can work with community groups to improve access to banking with a vigorous and sustained effort. A sound marketing plan can ensure that new entrants to banking receive the benefits of safe and affordable bank accounts. In order for families to stay banked, banks and local leaders should address not only the barriers to opening a bank account but also the obstacles that cause households to leave banking or to not develop a full banking relationship that includes building savings. Finally, employers and benefit providers, starting with state and local governments, should promote direct deposit to help employees and benefit recipients begin banking and stay banked.

RECOMMENDATIONS

OVERCOMING BARRIERS TO BANKING

- **Employers and government agencies can offer direct deposit to workers and recipients of public assistance.**

Direct deposit can alleviate the burden of monthly fees and minimum opening balance requirements, making checking accounts more affordable to open and maintain. Employers, beginning with state and local governments, can increase the use of direct deposit as a way of encouraging low-income workers to open and maintain bank accounts. Government offices providing public benefits payments should do the same for recipients of public assistance. Prepaid payroll and benefit cards, while a convenient transaction tool, do not offer the same opportunities to build savings and credit as direct deposit to a bank account does.

- **Government workforce placement programs can introduce bank accounts to the newly employed.**

Economic circumstances and employment are the most important factors in determining a person's "bankability." Half of the Newly Unbanked in our survey are also newly unemployed, and many more of the Unbanked are not making enough money to maintain a bank account. The linkage between neighborhood employment rates and success in opening new bank accounts affirms the recommendation that new bank accounts should be introduced as people become employed. Government workforce placement programs and private employers can both play a role here.

- **Policy makers and the banking sector can use public-private collaborations to reach the Unbanked and to set safe terms for starter accounts.**

Local governments and the banking sector should reduce barriers to entry through collaborations that make low-cost bank accounts available and that actively market them. These accounts should have a low minimum balance requirement and include a fair and transparent fee structure. Banks should couple these accounts with an offering of the other financial products sought by the low-income population, including remittances and money orders. Federal policies, local government practices, and partnerships that include local civic leaders and banks can encourage banks to maintain branch offices in low-income communities, hire staff fluent in prominent local languages and actively participate in the relationships necessary to build community comfort with the mainstream financial system. City leaders can offer their vigorous and sustained support for these campaigns.

- **Banks and efforts to bank the Unbanked can engage in marketing and outreach in locally spoken languages.**

Active marketing and community outreach, as well as financial education, are essential to reach a community often lacking comfort or familiarity with the banking system. Additionally, Bank on LA and similar publicly supported efforts can be clearly branded to help ensure that people get into the specifically designed Bank on LA starter accounts. To effectively market safer banking opportunities and reach out to the target population, all of these activities can be carried out in languages spoken by the target population.

HELPING FAMILIES STAY BANKED

- **Policy makers can require, and banks should implement, fair and transparent fees.**

Policy makers should require banks to provide information about checking account terms, conditions and fees in a concise, easy-to-read format, similar to the Schumer box for credit cards.²⁸ Failing to do so can lead to unexpected fees that our data shows can trigger low-income customers to drop out of the banking system. Given the high rate of overdraft transactions revealed in our survey, combined with the frequency at which the Newly Unbanked express deep dissatisfaction with unexpected fees, banks should review overdraft penalty fees and implement strategies to reduce their size and frequency. Moreover, they should provide full and transparent disclosure of customer options with respect to overdraft plans (such as overdraft transfer or line of credit) as well as the choice to opt in or out of overdraft programs at any time.

- **Banks and banking regulators can end deposit delay and require depository institutions to post deposits and withdrawals in a fully disclosed, objective and neutral manner, such as chronological order, that does not maximize overdraft fees.**

Our survey indicates that low-income customers are particularly concerned about liquidity and timing of their deposits and payments. Banks should post deposits and withdrawals in a fully disclosed, objective and neutral manner that does not maximize overdraft fees.²⁹ Banks should seek to make funds available as quickly as possible.

- **Banks can increase their presence, including ATM networks, in low-income areas.**

The use of out-of-network ATMs and accompanying fees reported in our survey likely reflects poor ATM infrastructure in the places where low-income customers live and work. Banks and credit unions can reduce fees associated with banking by optimizing their ATM networks for these low-income areas. Policy makers, including local governments, can take actions to encourage such improvements.

ENCOURAGING THE BUILDING OF SAVINGS AND CREDIT

- **Banks can provide a comprehensive suite of products, including money orders, remittances, check cashing, bill pay services and personal loans.**

Banks can leverage their strengths in location and customer service to effectively compete in the market for financial services utilized by low-income households. By offering a cheaper alternative to AFS, banks can present their customers a significant opportunity to save money even as banks capture this market for revenue-generating products and services. To do so, banks can provide at competitive and transparent prices products used by working poor and foreign-born populations, including money orders, remittances, check cashing, bill pay services and personal loans.

- **Community organizations, local governments, efforts to bank the Unbanked, like the Bank On programs, and depository institutions can provide financial education to help new customers manage costs and build up assets.**

Financial education and asset-building strategies are necessary to connect customers, particularly those who are unfamiliar with the banking system, with banking products that fit their financial needs. Financial education can complement full-disclosure policies and transparent fee structures at banks. Given the high rates of out-of-network ATM usage by low-income customers, education programs should specifically address ATM networks.

- **Banks, policy makers and community organizations can capitalize on household aspirations to build family financial security.**

Individuals who remain banked tend to actively save, including for long-term goals, such as paying for a college education. Banks that provide low-cost and easy-to-understand opportunities for savings and asset-building enable families to build economic security within the financial mainstream. Developing household assets and banking relationships allows families to save and plan. Banks can be active partners in fostering these opportunities.

APPENDIX: METHODOLOGY

This longitudinal study was designed to track the financial behaviors of low-income households over time. The first phase of the survey was conducted from July 8, 2009, to September 18, 2009, and the second phase nearly one year later from May 17, 2010, to September 29, 2010. With the data that emerged from this two-phase survey, we were able to analyze the financial evolution of the 2,000 tracked households across the economic turmoil of 2009 and 2010.

The initial panel of 2,000 respondents was drawn from eight neighborhoods located throughout the City of Los Angeles. In Phase II, 1,455 respondents from Phase I were successfully contacted again, representing a 28 percent attrition rate. Respondents were recruited to represent two specific subgroups: (a) 1,000 unbanked households, defined as those with no current bank account; (b) 1,000 banked households, defined as those with at least one bank account. In the first phase, the split between subgroups was essentially equal with 1,021 unbanked households and 1,000 banked households. Attrition was slightly greater among banked respondents; in Phase II, we surveyed 784 unbanked households and 671 banked households.

The neighborhoods selected for this study included four previously identified as targets for the Bank on LA campaign and four additional neighborhoods with similar socio-economic traits that were not targets of Bank on LA. While all eight neighborhoods are low-income, they are geographically and ethnically diverse, representing a variety of economic segments of Los Angeles. The study included areas with a history of redlining and divestment, dynamic immigrant enclaves, underutilized urban spaces under pressure from gentrification and stable working-class communities. We attempted to select communities that could provide not only a sample of low-income Los Angeles, but also a sample of low-income populations across the country.

Respondents were screened and recruited through a door-to-door, interviewer-administered survey with the households selected by random location sampling. Proportional quotas were determined for each of the eight target neighborhood geographies based on the broader sample quota of 1,000 banked households and 1,000 unbanked households. Each neighborhood was further subdivided according to census block group quotas using weighted census data. Individual quotas per block group were assigned via a Geographic Information Systems process based on the percentage of each block group within the total population of the census tracts in the neighborhood.

Three households per block were randomly selected as possible starting points. If qualified respondents were not available at the first household, the second household was approached, followed by the third household, if necessary. Upon the successful screening and recruitment of a household, interviewers approached other households on the block, skipping a specific number of homes, based on the block's population size and target quota. Local city officials assisted field researchers to obtain safe access to large public housing projects and arranged a secure location within the building for interviews.

Data collection for Phase II of the survey was administered by both telephone and in-person interviews.

Field researchers were instructed to request the participation of the head of the household or individuals responsible for household financial decisions. If the relevant individuals were not available, the interviewers returned at a different time. Once deemed eligible, respondents were recruited into the panel and immediately administered the Phase I questionnaire. Interviews were attempted at various times throughout the day, including during both peak and off-peak employment hours, to ensure comprehensive representation. Field staff reflected the ethnic and racial backgrounds of the target areas' demographics. Because the population of these neighborhoods is heavily Latino, most interviewers were fluent in both Spanish and English; all interviews were conducted in the respondents' language of choice. A total incentive of \$75 was offered to each participating respondent, distributed through the two phases: \$30 was offered immediately following Phase I interviews and the remaining \$45 upon the successful completion of Phase II interviews.

The survey involved between 70 and 150 questions, depending on the respondent's answers and financial behaviors. Almost all questions were closed-ended, multiple-choice questions. The interviews lasted between 30 and 60 minutes. For Phase II, the survey instrument was revised slightly to refine questions with ambiguous results. The survey instrument for both phases is available upon request.

ENDNOTES

- ¹ Federal Deposit Insurance Corporation, *National Survey of Unbanked and Underbanked Households* (2009). Throughout this report, as in *Unbanked by Choice*, the word “bank” is used to refer to regulated depository institutions, including banks, credit unions, and thrifts. In fact, banked respondents in our survey overwhelmingly use banks. See, Pew Health Group, *Unbanked by Choice: A Look at How Low-Income Los Angeles Households Manage the Money They Earn* (The Pew Charitable Trusts, 2010).
- ² Bank on LA is a city-led effort to promote banking among low-income communities. The City of Los Angeles partners with banks and local nonprofits to promote low-cost bank accounts. In its initial phase, Bank on LA targeted four neighborhoods with a high percentage of unbanked households. To measure the success of the program and expand the breadth of our survey, we added to the study four additional neighborhoods with similar socio-economic traits as the pilot neighborhood but which were not targeted by Bank on LA.
- ³ Pew Health Group, *Unbanked by Choice: A Look at How Low-Income Los Angeles Households Manage the Money They Earn* (The Pew Charitable Trusts, 2010).
- ⁴ Identification as Hispanic/Latino is slightly less frequent among the Newly Unbanked (76 percent) than the overall survey population (86 percent). The Newly Unbanked are less financially secure than the overall survey population. Most of the Newly Unbanked have household incomes of less than \$15,000 per year (71 percent), while 56 percent of the overall survey population report this level of household income. Half (50 percent) of the Newly Unbanked have suffered a decrease in household income in the past year, slightly more than the 43 percent of the overall survey population reporting such a decline.
- ⁵ Newly unbanked respondents were asked why they chose to close their bank account(s) and offered nine answer options, among them “other” and “none of the above.” Other answer options to the survey question were “Upset Over Some Fees You Were Charged,” “Upset Over the Bank’s Customer Service,” “Credit Was Reduced or Denied,” “Bank Stopped Supporting My Culture or Community,” “Bank Was Taken Over by Another Bank,” “Didn’t Have Money” and “Lost Job/Unemployed.”
- ⁶ The four control neighborhoods in our study were selected for their socio-economic similarity to the four neighborhoods selected for initial targeting by Bank on LA. All eight neighborhoods are low-income, but otherwise are geographically, ethnically and historically diverse. Further information about the control neighborhoods and our methodology is available in *Unbanked by Choice*.
- ⁷ Among the largest banks in California, the median minimum balance required to open a checking account is \$50. Nationally, the median minimum opening balance is \$100, indicating that this barrier may be even more significant in other parts of the country. Pew Health Group, *Hidden Risks: The Case for Safe and Transparent Checking Accounts* (The Pew Charitable Trusts, 2011).
- ⁸ ChexSystems is a consumer reporting agency that provides banks with reports on account applicants who have a history of mishandling bank accounts.
- ⁹ Claes Bell, “Banks Taking a Bigger Bite with ATM Fees,” in 2010 Checking Study, *Bankrate.com* (2010), available at www.bankrate.com/finance/checking/bankrate-s-2010-checking-study.aspx.
- ¹⁰ In 2011, the federal poverty line for a family of four is \$22,350. The 2011 U.S. Department of Health and Human Services Poverty Guidelines, available at aspe.hhs.gov/poverty/11poverty.shtml.
- ¹¹ Manuel Pastor, *Banking on LA* (2009); www.bankonla.org/aboutus/index.htm.
- ¹² Our survey was conducted as the Bank on LA program expanded. Because the form of outreach utilized by Bank on LA—inclusion in city contracts for services targeting the working poor and distribution through grassroots networks—involved a period of transition and then organic growth, we believe that the distinctions between the control and pilot neighborhoods are relevant.

- ¹³ The low levels of brand awareness likely stem from the way Bank on LA marketed itself. The City of Los Angeles received pro bono marketing design services from McCann Erickson, the same firm responsible for the Bank On San Francisco campaign that reported higher levels of brand awareness. However, the initial planning for a public outreach campaign in Los Angeles coincided with the widespread collapse of banks in autumn 2008 during the financial meltdown. Turbulence in the financial sector jeopardized program funding from banks and prompted city leaders to reevaluate ambitious public marketing campaigns, such as those seen in San Francisco. Instead, Bank on LA pursued a grassroots outreach campaign by distributing postcards and relying on existing community networks to spread the word about banking. See Anne Stuhldreher and Leigh Phillips, *Building Better Bank Ons: Top 10 Lessons from Bank On San Francisco* (New America Foundation, 2011), available at newamerica.net/publications/policy/building-better-bank-ons.
- ¹⁴ United States Census Bureau, Los Angeles County, California.
- ¹⁵ Anne Stuhldreher and Leigh Phillips, *Building Better Bank Ons: Top 10 Lessons from Bank On San Francisco* (New America Foundation, 2011), available at newamerica.net/publications/policy/building-better-bank-ons.
- ¹⁶ Corporation for Enterprise Development, *Building Economic Security in America's Cities: New Municipal Strategies for Asset Building and Financial Empowerment* (2011), available at cfed.org/knowledge-center/publications/savings-financial-security/building-economic-security-in-americas-cities.
- ¹⁷ Pew Health Group, *Hidden Risks: The Case for Safe and Transparent Checking Accounts* (The Pew Charitable Trusts, 2011).
- ¹⁸ Ibid.
- ¹⁹ See, for example, National Consumer Law Center, *Unemployment Compensation Prepaid Cards: States Can Deal Workers a Winning Hand by Discarding Junk Fees* (2011), available at www.nclc.org/images/pdf/pr-reports/uc-prepaid-card-report.pdf.
- ²⁰ Further details about the demographics of the survey population are available in *Unbanked by Choice: A Look at How Low-Income Los Angeles Households Manage the Money They Earn* (The Pew Charitable Trusts, 2010).
- ²¹ Pew Health Group, *Hidden Risks: The Case for Safe and Transparent Checking Accounts* (The Pew Charitable Trusts, 2011).
- ²² For a discussion of transaction order, see Pew Health Group, *Hidden Risks: The Case for Safe and Transparent Checking Accounts* (The Pew Charitable Trusts, 2011).
- ²³ Ibid.
- ²⁴ Federal Reserve data show that in 2009 over \$140 billion in transactions were made using prepaid products; see 76 Fed. Reg. 43394, 43395.
- ²⁵ In 2008, we found that California households without a bank account spend approximately \$1 billion every year on check-cashing and bill pay services. Pew Health Group, *Converting Basic Financial Service Fees into Prosperity: An Untapped Opportunity for Consumers and Banks* (The Pew Charitable Trusts, 2008).
- ²⁶ Pew Health Group, *Converting Basic Financial Service Fees into Prosperity: An Untapped Opportunity for Consumers and Banks* (The Pew Charitable Trusts, 2008).
- ²⁷ Edmund Khashadourian, Joseph Martinez and Bill Pitkin, *The Earned Income Tax Credit in Los Angeles: Trends and Opportunities* (Center for Community Research and Solutions, 2008), available at www.unitedwayla.org/getinformed/rr/research/financial/Documents/EITCbrievVersion1.pdf.

- ²⁸ For further details on fair and transparent fee structures and disclosures, see Pew Health Group, *Hidden Risks: The Case for Safe and Transparent Checking Accounts* (The Pew Charitable Trusts, 2011).
- ²⁹ For further details on transaction sequencing, see Pew Health Group, *Hidden Risks: The Case for Safe and Transparent Checking Accounts* (The Pew Charitable Trusts, 2011).

The analysis included in this report is solely that of The Pew Charitable Trusts and does not necessarily reflect the views of outside reviewers. This report is intended for educational and informative purposes. References to specific policy makers, programs or companies have been included solely to advance these purposes and do not constitute an endorsement, sponsorship or recommendation.

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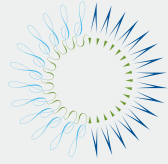
The Pew Safe Banking Opportunities Project, a two-year initiative, develops standards for safe, affordable, fair and empowering bank accounts, promotes their voluntary adoption by banks and credit unions, and educates the public about the standards.

For more information, see www.pewtrusts.org/safebanking.



Pew Health Group is the health and consumer-product safety arm of The Pew Charitable Trusts, a nonprofit organization that applies a rigorous, analytical approach to improve public policy, inform the public and stimulate civic life.

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