

Economic Inclusion in DC: Being Unbanked/Underbanked

Consequences and Solutions

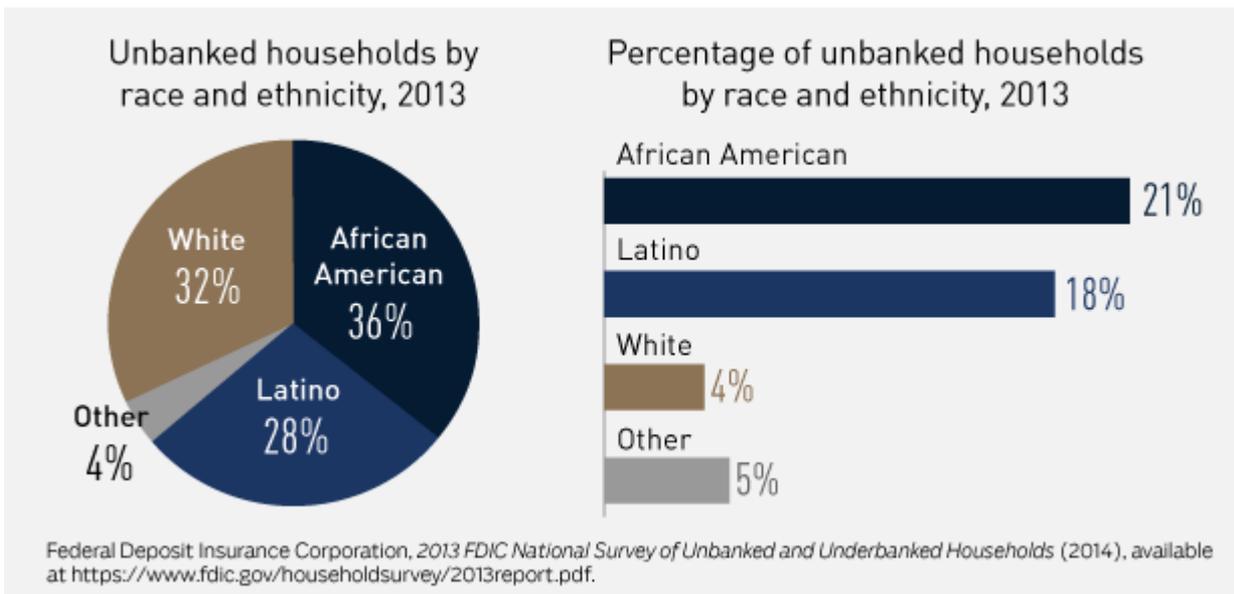
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September 24, 2015

Nearly 10 million unbanked households — higher rates for young, in communities of color



The unbanked rate for ages 15-24 is 15.7 percent, double the national average of 7.7%.

The cost of being unbanked: low-income Americans pay twice for everyday transactions

- First, fees to turn a check into cash
 - ◆ DC fee caps: from 2% for government checks up to 10% for personal checks
- Second, fees to use cash for payments
 - ◆ Money orders: \$1.25 at post office, up to \$500; \$1.65 for up to \$1,000
 - ◆ Prepaid cards: initial card-purchase fees, loading fees, others

Unbanked families may spend hundreds or thousands of dollars a year in financial fees

Being banked can give families a raise

Estimated annual cost for an unbanked worker even with low fees

Unbanked low-wage worker

Annual income	\$20,000
Check-cashing fees <i>2% per check</i>	\$400
Money order fees <i>2 times per month, \$1.25 each</i>	\$30
Total cost	\$430

In many cases, fees can be even higher.

Over the course of a year, **financial services fees can add up** to more than half of an additional paycheck.

Joe Valenti and Deidre Heiss, "Financial Access in a Brave New Banking World" (Washington: Center for American Progress, 2013), available at <https://www.americanprogress.org/issues/economy/report/2013/10/16/77016/financial-access-in-a-brave-new-banking-world/>.

Nationwide, being unbanked leads to billions in fees instead of billions in families' pockets.

Being unbanked means families may lose out on other financial products and services

- Savings
 - ◆ Savings accounts, CDs, IRAs, etc.
- Credit
 - ◆ Affordable auto loans
 - ◆ Consumer/small-dollar credit
 - ◆ Mortgages

Being unbanked can also mean exclusion from services that rely on electronic payments

- Public services
 - ◆ Parking (by card or by phone)
 - ◆ Registrations, fees, and fines
- Travel
 - ◆ Bikeshare, carshare services
 - ◆ Not only EZPass, but also unstaffed toll roads (Maryland ICC, Virginia 95/495 Express Lanes)
- Purchases
 - ◆ Online and sometimes even in-person

Overdraft fees are a major risk, and can dramatically increase the cost of being banked

WHEN Ken Martin, a hat-seller, pays his monthly child-support bill, he uses a money order rather than writing a cheque. Money orders, he says, carry no risk of going overdrawn, which would incur a \$40 bank fee. They cost \$7 at the bank. At the post office they are only \$1.25 but getting there is inconvenient. Despite this, while he was recently homeless, Mr Martin preferred to sleep on the streets with hundreds of dollars in cash—the result of missing closing time at the post office—rather than risk incurring the overdraft fee. The hefty charge, he says, “would kill me”.

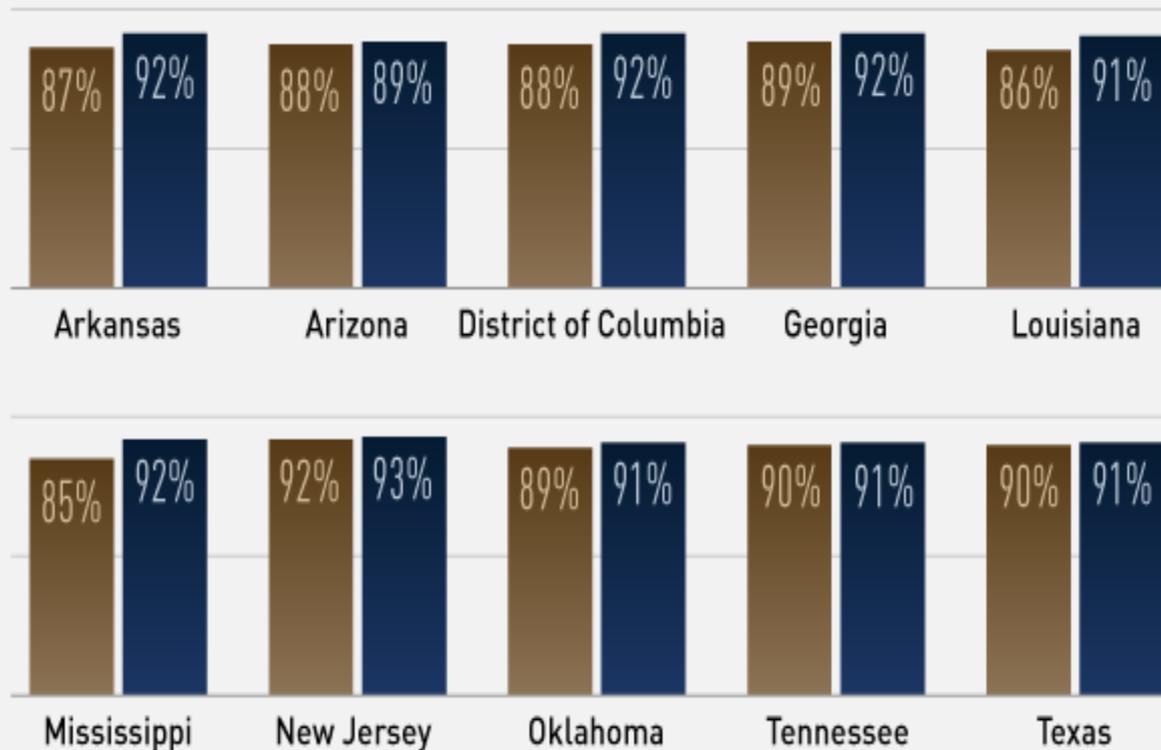
—“It’s expensive to be poor,” *The Economist*, September 5, 2015

Prepaid cards offer greater flexibility— but also the risk of higher fees

- Retailers and other non-branch locations can become access points
 - ◆ CVS
 - ◆ 7-Eleven
 - ◆ WalMart
- But at what cost?
 - ◆ Ventra transit cards (Chicago)
 - ◆ Millions in ATM fees on benefits cards

In 9 states and the District of Columbia, cell phones are more common than bank accounts

Percent of households with access to **bank accounts** and **cell phones**, 2013

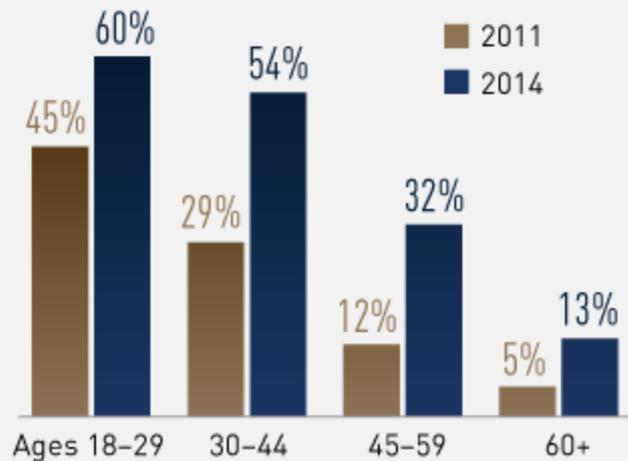


Centers for Disease Control and Prevention, "National Health Interview Survey: 2013 Data Release," available at http://www.cdc.gov/nchs/nhis/nhis_2013_data_release.htm (last accessed September 2015); Federal Deposit Insurance Corporation, *2013 FDIC National Survey of Unbanked and Underbanked Households (2014)*, available at <https://www.fdic.gov/householdsurvey/2013report.pdf>.

Mobile banking can provide better information and greater convenience to families

Mobile banking usage has grown for all ages

Percent of households with cell phones and bank accounts that use mobile banking tools



Board of Governors of the Federal Reserve System, *Consumers and Mobile Financial Services 2015* (2015), available at <http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201503.pdf>.

Mobile financial tools can make banking more convenient by...



Accessing instant balance information



Depositing checks using a smartphone camera



Paying bills electronically

Intermediaries can also promote being banked and offer better financial products

- Public programs
 - ◆ BankOn DC
 - ◆ Volunteer Income Tax Assistance sites
- Employers
 - ◆ Adopting direct deposit
 - ◆ Accounts as an employee benefit
- Community organizations

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