Economic Inclusion in DC: Being Unbanked/Underbanked

Consequences and Solutions

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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

<table>
<thead>
<tr>
<th>Unbanked low-wage worker</th>
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<tbody>
<tr>
<td>Annual income</td>
<td>$20,000</td>
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<tr>
<td>Check-cashing fees</td>
<td>$400</td>
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<td>2% per check</td>
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<tr>
<td>Money order fees</td>
<td>$30</td>
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<td>2 times per month, $1.25 each</td>
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<tr>
<td><strong>Total cost</strong></td>
<td><strong>$430</strong></td>
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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.


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.
Mobile banking can provide better information and greater convenience to families.
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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