Findings on Inaccessible Banking Options in California

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Remarks of Emily DiVito, Deputy Director of Democratizing Finance, Roosevelt Institute

Good morning. My name is Emily DiVito, and I'm deputy director of the Democratizing Finance program at the Roosevelt Institute, an economic think tank. Thank you for inviting me to discuss the research I presented in my paper, "Banking for the People: Lessons from California on the Failures of the Banking Status Quo."

Full, free, and fair access to the money you own, and the financial systems in which it can be safely stored, is necessary to achieve economic security. But America's current banking and payments system is fee-based, creating a tiered economy where millions of individuals and families are pushed out of the formal banking sector and toward predatory nonbank alternatives—like check cashers, payday lenders, and nonbank financial technology companies. Most recent data show that nearly 5 percent of US households have no bank account at all, and another 14 percent still have to rely on costly nonbank alternatives at least some of the time. Combined, that's nearly 15 million households with insufficient access to the basic financial products that would allow them full economic participation.

One of the primary reasons that these households are unbanked is because of the financial burden of accessing basic bank products—via things like the prevalence and unpredictability of overdraft fees, minimum balance requirements, and ATM fees. Though—thanks in part to the Consumer Financial Protection Bureau's (CFPB's) efforts to eliminate the pervasiveness of so-called "junk fees"—total overdraft revenue for banks has declined in recent years, fees still generate big money for banks: about $8 billion annually. For some financial institutions, overdraft revenue represents their entire profit margin. Moreover, by necessarily targeting accounts that have insufficient funds, overdraft fees, in particular, are pernicious and paradoxical. Low-income families are significantly more likely to pay overdraft fees, and Black consumers are significantly more likely to pay *any* bank account fee at all.

Beyond the statistics, the human *experience* of banking in person—especially for individuals who are low-income, Black, brown, and/or non-English speaking—can introduce even more otherwise-invisible barriers to full financial inclusion. As such, my recent research has explored the range of tangible and intangible barriers to bank access. In 2022, we sent canvassers to 106 bank branches across California. During each visit to a bank branch, canvassers sought information about the bank's lowest-cost accounts.

The study aimed to answer the basic question, "what happens when a prospective customer walks into a physical bank branch looking for service?" Are basic, low-cost financial products available at convenient locations? And, most importantly, are prospective customers—especially those who are low-income, Black and brown, and/or Spanish-speaking—*able* to access them?

In sum, the survey found a troubling prevalence of overdraft-fee-based accounts, a reticence on the part of bank staff to disclose cheaper alternatives even when they existed, and race and language disparities in access to information and equal treatment while banking.

The first two findings establish an alarming lack of functional (versus nominal) availability of basic, low-cost banking products. First, survey results found that overdraft-fee-based accounts were the norm. In 60 percent of completed visits to the three largest banks in the sample (Wells Fargo, JP Morgan Chase, and Bank of America), the bank employee mentioned an account with default overdraft protection costing about $35 per overdraft charge, capped at three or four charges per day. Only two bank companies (at a combined total of three locations) were identified as offering customers a fully no-fee, no-minimum balance account.

The survey's second main finding was that bankers failed to mention these low-cost accounts in a majority of instances, even when those options were nominally on offer. Only in fewer than 40 percent of visits to a Bank On–participating institution did bankers mention an account that was Bank On–compliant. If banks don't provide information about Bank On accounts even when specifically asked, the program—and any other that relies on voluntary bank participation—will never sufficiently meet the needs of unbanked and underbanked individuals.

The survey's third finding demonstrates race and language disparities in access to information and equal treatment at banks. Canvassers of color and Spanish-speaking canvassers were turned away from banks by staff far more than their white and English-speaking counterparts—30 percent and 40 percent of the time, respectively (compared to 4 percent of the time for white canvassers and 15 percent of the time for English-only speaking canvassers). Moreover, many canvassers reported feeling unwelcome, uncomfortable, and/or rushed while trying to bank. The reasons bank staff provided for turning prospective customers away included otherwise innocuous-sounding explanations, such as that the staff were at lunch or too busy to help. However, the survey's findings illuminate a *trend* of disparate treatment predicated on race and language that is damaging in real terms: both by failing to provide sufficient banking services for individuals and families, and by exacerbating the historical mistrust that communities of color have toward the traditional financial institutions.

The failure of the banking industry to meet demand for everyone indicates the need for more affordable and accessible options. Truly inclusive banking solutions must offer both affordable financial products and access to systems and/or staff to help consumers understand and navigate them. Such a comprehensive program would benefit individuals and families through both the low-cost banking services offered *and* through faster direct government transfers—such as social security and other welfare payments, as well as stimulus during times of crisis like COVID-19. Public-interest banking infrastructure would also benefit governments by reducing the threat of bank runs in the absence of expanded deposit insurance or the consumer panics that can arise from distrust in privately managed institutions.

Our banking system creates a damaging, multitiered economy that locks out families who can’t afford to participate and inhibits government policy aimed at helping the most vulnerable. My findings from a diverse sample of California’s banks demonstrate that opt-in-only solutions like Bank On have left clear coverage gaps that will inevitably always remain without government interventions in the public interest.

Thank you.