THE PEW HEALTH GROUP

UNBANKED BY CHOICE:

A look at how low-income Los Angeles households manage the money they earn

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EXECUTIVE SUMMARY

American families without a bank account live in a dangerous financial world.[1] Lacking access to government-insured savings or opportunities to build credit, they not only incur risks of theft, fraud and loss, but by using alternative financial service (AFS) providers such as check cashers or payday lenders, they also become prey to expensive predatory products and services that make it harder for them to achieve financial security. Prior research by the Pew Health Group (PHG) on California families confirms the widely shared view that having a bank account generally provides access to basic financial services at a lower cost than using AFS.[2]

To reduce these risks and costs, PHG's Financial Security Portfolio has helped unbanked households open a safe and affordable bank account as the first step in joining the financial mainstream. The PHG Safe Banking Opportunities Project provided research and technical assistance to help more than 50 cities and localities kick off "Bank On" programs that bring together banks, local government and community groups to promote responsible bank account ownership. More recently, we investigated the products and services that banks might provide to attract and serve more unbanked individuals.[3]

In 2009, we began an in-depth study of the financial behaviors of similarly situated unbanked and banked low-income families to inform policy solutions that would bring more Americans into the financial mainstream. This is the first report from a multi-phase survey of 1,000 banked and 1,000 unbanked households in greater Los Angeles, randomly selected from eight low-income study areas for in-person interviews at several intervals over the course of a year (July 2009 to July 2010). Our findings from the first wave, or phase, of this study suggest several policy directions for further investigation to help unbanked families shift to the safer world of the banked. The data shows different patterns of financial behavior between the Banked and the Unbanked in our study. Moreover, it reveals that the Banked and Unbanked further segment into distinct sub-groups based on their usage of financial services and providers: a banked only group, a cross-over group that has bank accounts but also uses AFS, an unbanked AFS-only group, and an unbanked cash economy group that uses cash only.

Banked Only: households with at least one bank account that use banks for all financial services and transactions.

Cross-Over: 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").

AFS Only: households that do not have a bank account and rely on non-bank alternative financial service providers for financial services or transactions.

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

We found some demographic differences between the two groups. The banked respondents in our study are older (40 years) on average than their unbanked counterparts (34.5 years). Both types of respondents are likely to be foreign born (65% for the Banked and 69% for the Unbanked), but each has resided in the United States for many years (21 years on average for the Banked, 14 for the Unbanked). Members of both groups tend to be employed in similar non-technical professions and have similar unemployment rates (12–13%), but the Banked earn higher wages and salaries (an average of $29,400 annually compared to an average of $17,300 for the Unbanked). With average family sizes of 4.4 and 4.7 persons, respectively, this puts the Banked just above the federal poverty line, and the Unbanked below it. Close to two-thirds of the Banked (60%) have completed high school, compared to less than half (48%) of the Unbanked (Appendix A).

SUMMARY OF FINDINGS

- **Having a bank account correlates with saving.** All the neighborhoods surveyed are low income. Still, more than twice as many Banked (24%) as Unbanked (11%) report they are earning enough to pay their bills *and* save for the future. The Banked are more likely to save no matter what form their income takes—direct deposit, check or cash. About half of all surveyed, Banked or Unbanked, are making enough to pay bills but not to save.

- **How workers are paid strongly influences banking status.** Direct deposit requires a bank account, but payment by check also strongly correlates with being banked. The Unbanked are twice as likely as the Banked to be paid in cash on their primary job.

- **The low-income Banked maintain long-term banking relationships.** More than two-thirds have been banked five years or more, overwhelmingly with a single institution. Forty percent have been banked more than 10 years. Being charged fees without explanation is the major reason cited by the Banked that would cause them to leave their current bank.

- **About one-third of the Banked also use AFS.** Sixty-three percent of the banked population uses banking institutions exclusively, while the rest turn to check cashers, supermarkets, liquor stores and other AFS providers in addition to banks. Of these cross-over, or "underbanked," users, 78% use AFS services at least once a month.

- **Most Unbanked have never had a bank account.** Nearly two-thirds (63%) of unbanked respondents in this study have never had a bank account. Almost one-quarter of the Unbanked (22%) previously had an account, but later opted to close it and remain unbanked. Some Unbanked (9%) previously had an account, but say they cannot now qualify for one.[4] Three percent of those unbanked in the United States had bank accounts in another country.

- **Many of the Unbanked conduct their financial transactions exclusively in cash.** Almost one-third (29%) of the surveyed Unbanked exist in the cash economy. As discussed below, we conservatively estimate there are at least a million unbanked persons in the Los Angeles Metropolitan Statistical Area (MSA), making the cash economy segment some 300,000 strong. The other two-thirds of the Unbanked rely on AFS providers for financial transactions.

- **Members of the cash economy segment "save" by remitting.** Even though the Banked earn more on average than the Unbanked, those in the cash economy group send as much or more money to their families abroad each month than the Banked, while those in the AFS-only group remit the least on average.

- **All respondents tend to like and trust the financial provider they have.** The Banked are not more satisfied than the Unbanked. Those in the cash economy segment trust banks more than AFS providers, though they use neither. Most of these respondents, particularly Latinos, do not place high trust in credit unions.