

THE COST OF FINANCIAL EXCLUSION:

Understanding the impact of the unbanked in California

MAY 2021

TABLE OF CONTENTS

EXECUTIVE SUMMARY 3

BACKGROUND: ATLAS OF BANKING ACCESS 4

ECONOMIC IMPACT OF PROVIDING BANKING ACCESS 14

ACKNOWLEDGMENTS

The research reported in this publication was sponsored by SEIU.

ABOUT HR&A ADVISORS, INC.

HR&A Advisors, Inc. (HR&A) is an economic development, public policy, and real estate consulting firm helping to create more equitable, resilient, and dynamic communities. Our work turns vision into action through rigorous analysis, strategy development, and implementation planning. HR&A's Inclusive Cities practice translates the ideas of communities and their advocates into meaningful systems change within local government by launching programs that center racial equity, advance social and economic justice, and inform policy.

CORE PROJECT TEAM

Giacomo Bagarella
Andrea Batista Schlesinger
Kate Owens
Garrett Rapsilber

EXECUTIVE SUMMARY

25%

OF CALIFORNIANS ARE
UNBANKED AND
UNDERBANKED

\$3.3B

HOUSEHOLD SAVINGS FROM
UNIVERSAL BANKING ACCESS

\$4.2B

GROWTH IN THE
CALIFORNIA ECONOMY

Californians have unequal access to banking, costing the economy billions of dollars a year, keeping people in poverty and increasing the cost of providing social services. Providing universal access will benefit households, local economies and taxpayers.

One in four Californians lacks full access to the financial system. Approximately seven percent are unbanked and another 18 percent use alternative financial services.

Minority, low-income and immigrant households are the most affected. Black households are six times as likely as white households to be financially underserved. Low-income households also make up more than three quarters of the unserved. Furthermore, single female headed households are also more likely than any other household type to be underserved.

Access is uneven across the state. Southern Californian cities are more affected than Northern Californian ones. Rural areas experience the lowest access, particularly when compared to national averages. With

banking deserts in both urban and rural areas.

Californians spend a large share of their earnings on services outside of the financial system. These expenditures are estimated to be \$930 per economically active household member per year. The cumulative impact is at least \$3.3 billion per year.

Universal financial access will have huge benefits to the California economy. The annual impact is at least \$4.2 billion but could be much larger. Services outside the formal system have a negative economic return, therefore shifting away from these services is likely to have an even larger effect than estimated. Taxpayers will also benefit through reduced program costs for social services that offer prepaid cards to overcome issues with unbanked users.

Providing universal access to a bank account will require action from public and private actors. Closing the gap in access to financial services cannot be done by government or banks alone.

ATLAS OF BANKING ACCESS

WHO ARE THE UNBANKED AND UNDERBANKED?

Since 2009 the Federal Deposit Insurance Corporation (FDIC) has surveyed American households biennially on their access to banking services. These surveys are the basis for estimating the number and characteristics of unbanked and underbanked households in California.

The FDIC defines these populations as follows:



Unbanked. Households without access to a bank account at an FDIC-insured financial institution.



Underbanked. Households that have a bank account but also use financial services outside of the banking system. These services include payment and deposit accounts (e.g., check cashing, remittance), single payment credit (e.g., overdraft, payday loan, pawn), short-term credit (e.g., title loan, rent-to-own), and long-term credit (e.g., subprime auto loan, private student loan).

The FDIC did not report underbanked statistics for its 2019 survey on household use of banking and financial services. For consistency, all analysis on unbanked and underbanked households presented in this study is based on 2017 FDIC survey data unless otherwise noted.

ONE IN FOUR CALIFORNIANS LACK FULL FINANCIAL ACCESS

2.9M

UNBANKED CALIFORNIANS

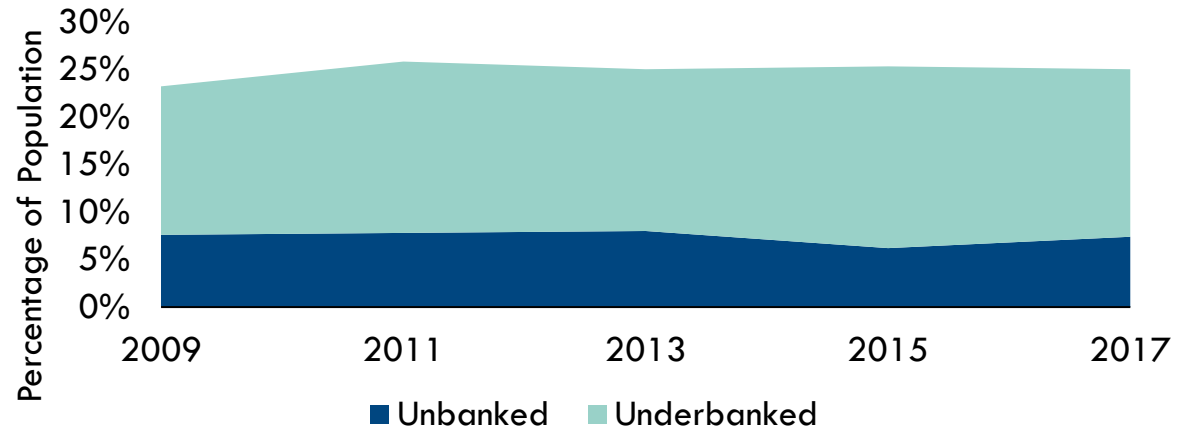
6.9M

UNDERBANKED CALIFORNIANS

25%

OF THE POPULATION IS
UNBANKED AND UNDERBANKED

California Unbanked and Underbanked Population
(2009-2017)



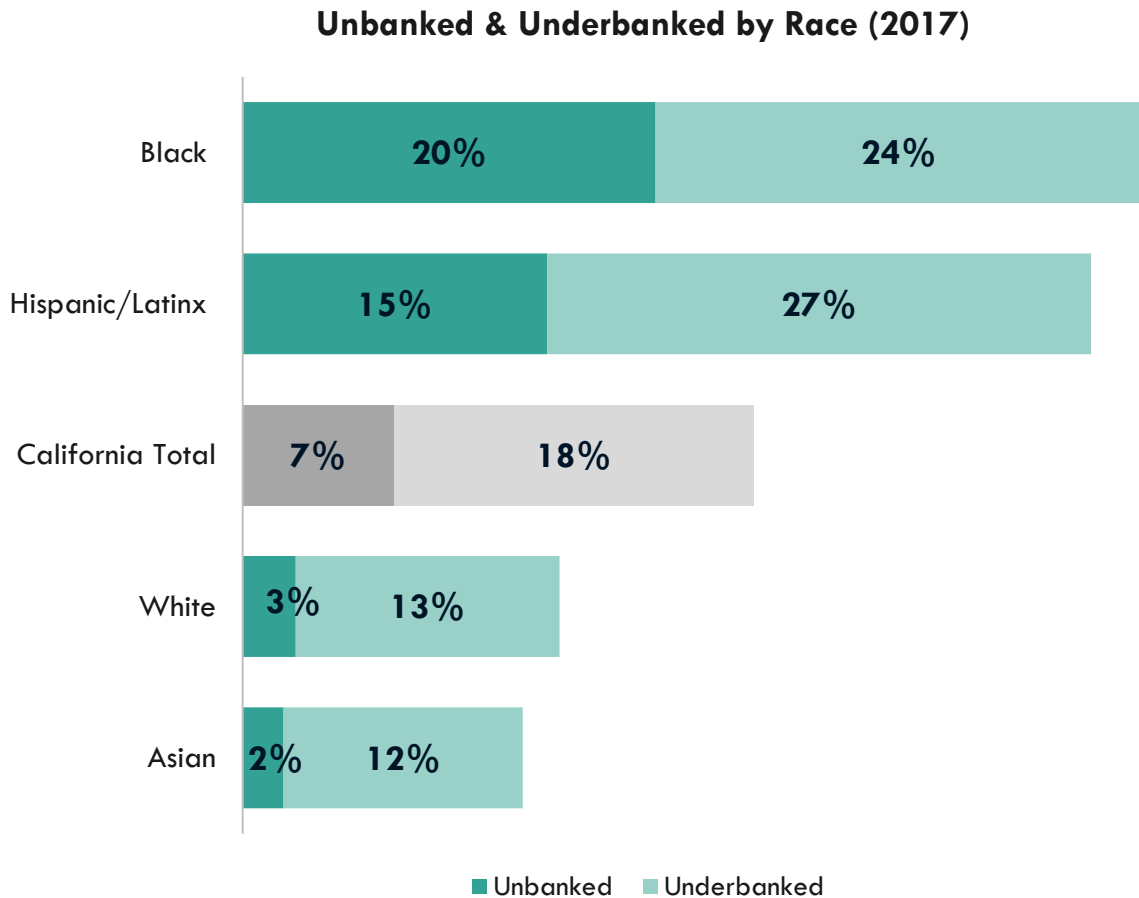
Source: FDIC

The **number of unbanked and underbanked** residents in California was **largely unchanged** between 2009 and 2017, and accounts for **25 percent of the state's population**. Today approximately 7 percent of residents are unbanked and 18 percent are underbanked. California's unbanked and underbanked **rates are like the national average**.

FINANCIAL ACCESS REFLECTS RACIAL INEQUALITY IN CALIFORNIA

Black households are 6 times more likely to be underbanked than white ones. Both Black and Latinx residents are 2 times more likely to be underbanked than white and Asian populations.

Black and Latinx populations are mostly likely to be either unbanked or underbanked in California.

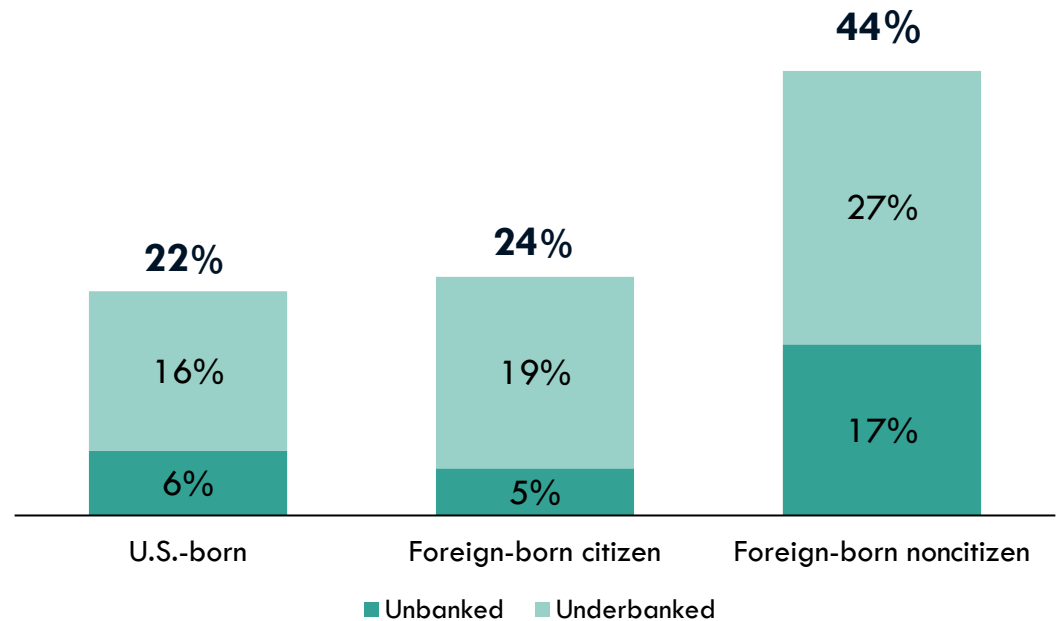


IMMIGRANTS FACE CHALLENGES OBTAINING FINANCIAL SERVICES

Forty-four percent of non-citizens in California are unbanked or underbanked, double the rate of citizens. Non-citizens are three times more likely to be unbanked and at least 40 percent more likely to be underbanked than citizens.

There are an estimated 2.9 million unbanked and underbanked non-citizens in California. Immigrants account for approximately **23 percent of California's financially underserved population.** Immigrants represent 27% of the total population in California meaning that they are underrepresented as a share of the unbanked.

Unbanked and Underbanked Rates by Citizenship Status in California (2017)



Source: FDIC

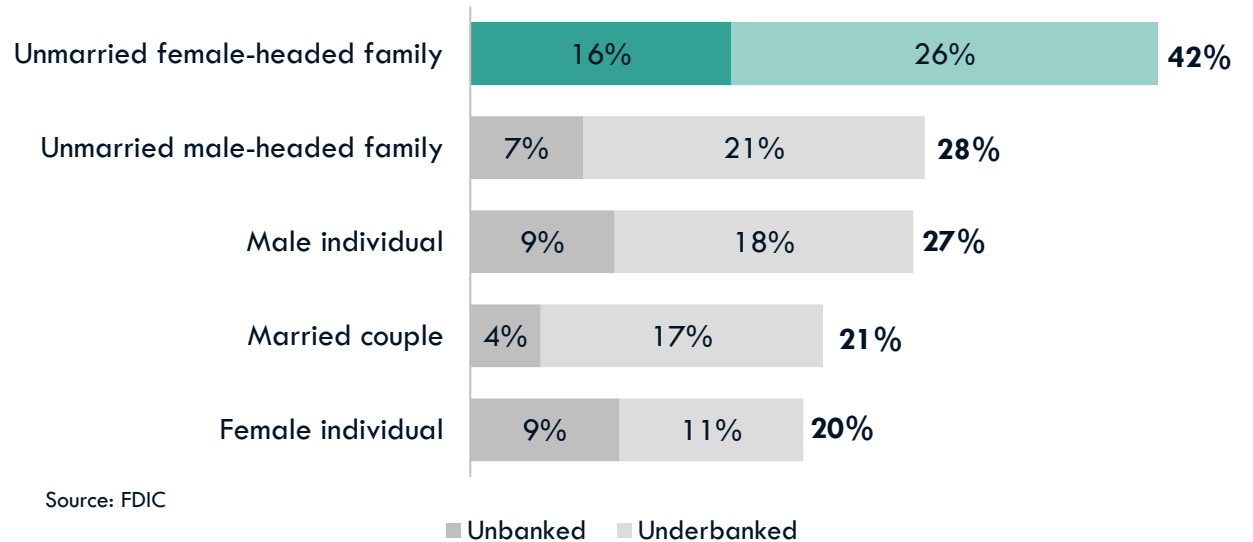
2.9 M

UNBANKED or UNDERBANKED IMMIGRANTS

SINGLE FEMALE HEADED HOUSEHOLDS LACK ACCESS

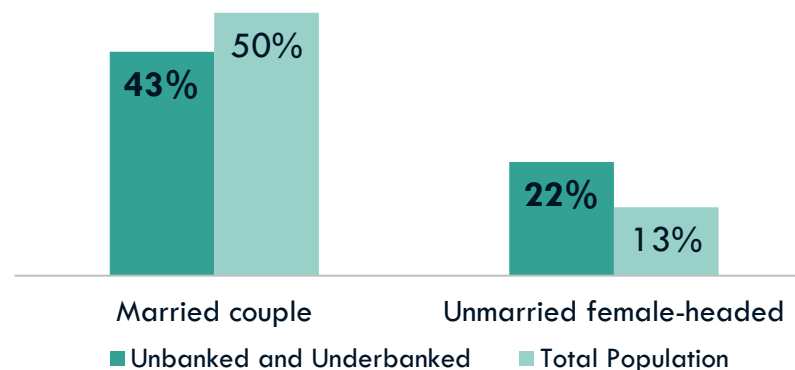
Single female-headed households are by far most likely to be unbanked or underbanked in California. This group's 16 percent unbanked rate is more than double the statewide average (7 percent) and at least 5 percent points higher than any other family type.

Unbanked & Underbanked by Household Type (2017)



Single female-headed households are disproportionately represented among California's unbanked and underbanked households, representing 22% of the unbanked and just 13% of total households. In contrast, married couples are underrepresented in the unbanked population.

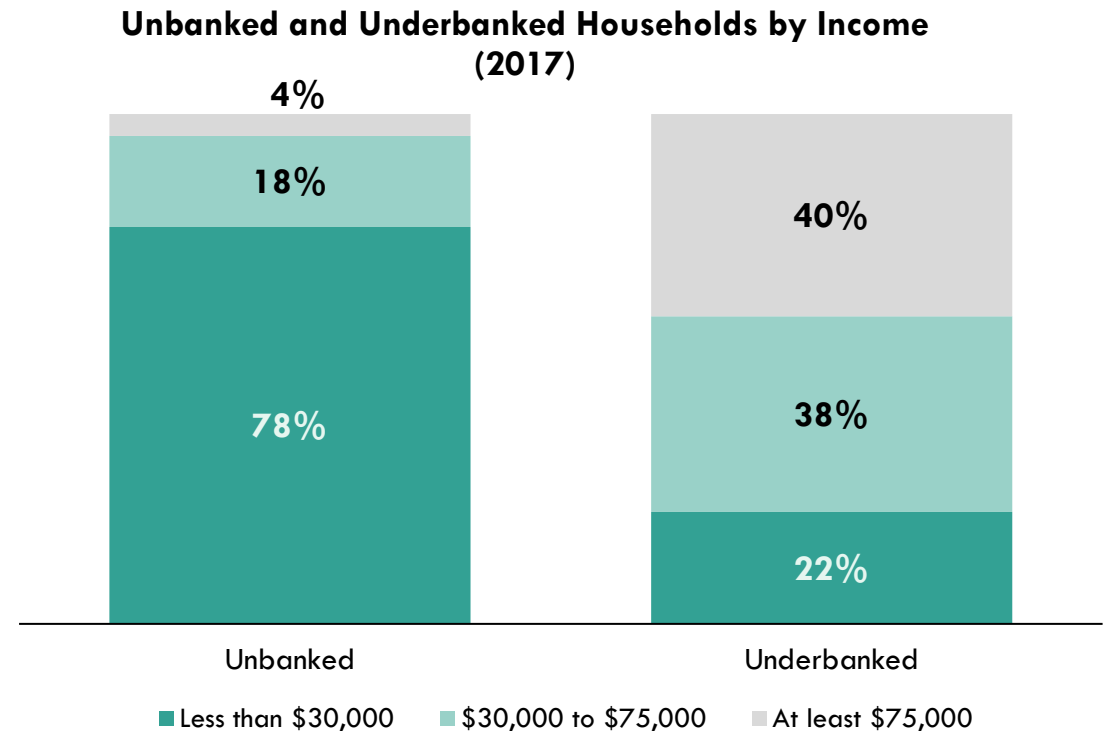
Share of California Households (2017)



FINANCIAL EXCLUSION AFFECTS LOW INCOME HOUSEHOLDS MOST

The vast majority of the unbanked population in California is comprised of low-income households. **Seventy-eight percent of unbanked households make less than \$30,000 annually** and 42 percent make less than \$15,000 annually.

The underbanked population has a larger income spread than unbanked Californians. Forty percent of underbanked households make more than \$75,000 per year.



Source: FDIC

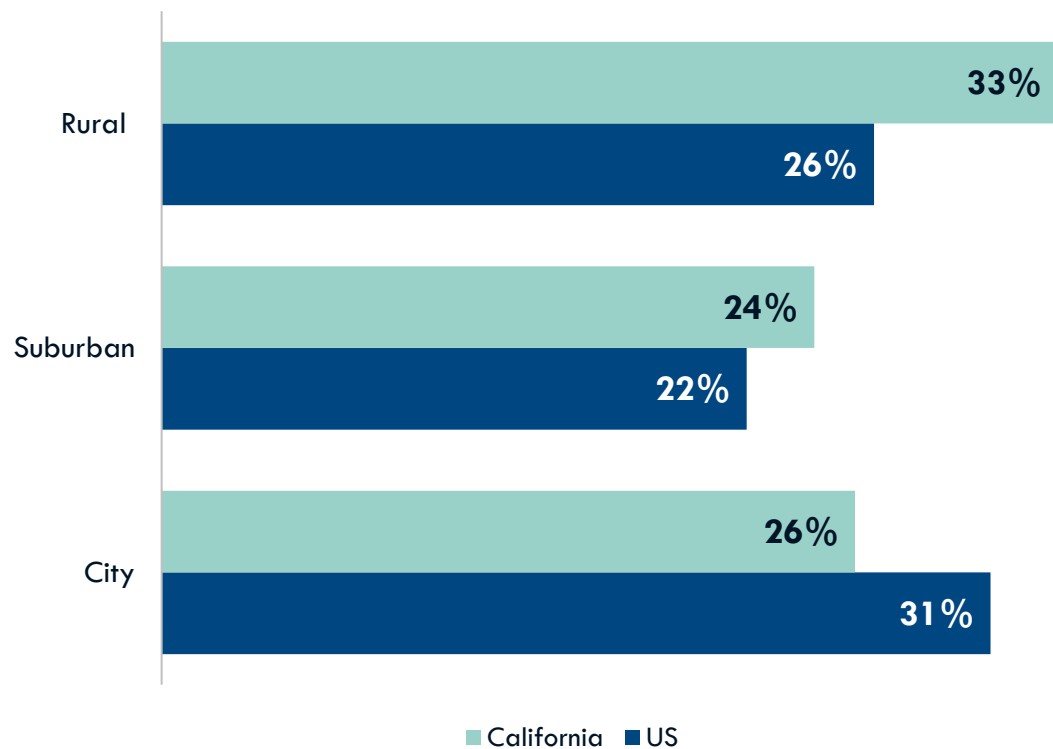
RURAL CALIFORNIANS HAVE SOME OF THE LOWEST RATES OF ACCESS

While lack of financial access cuts across urban, suburban, and rural areas in California, **rural residents appear especially vulnerable. A third of rural residents** face barriers to banking and financial services.

The unbanked rate (10 percent) and the underbanked rate (23 percent) for rural residents are 3 percentage points and 5 percentage points higher than the statewide average.

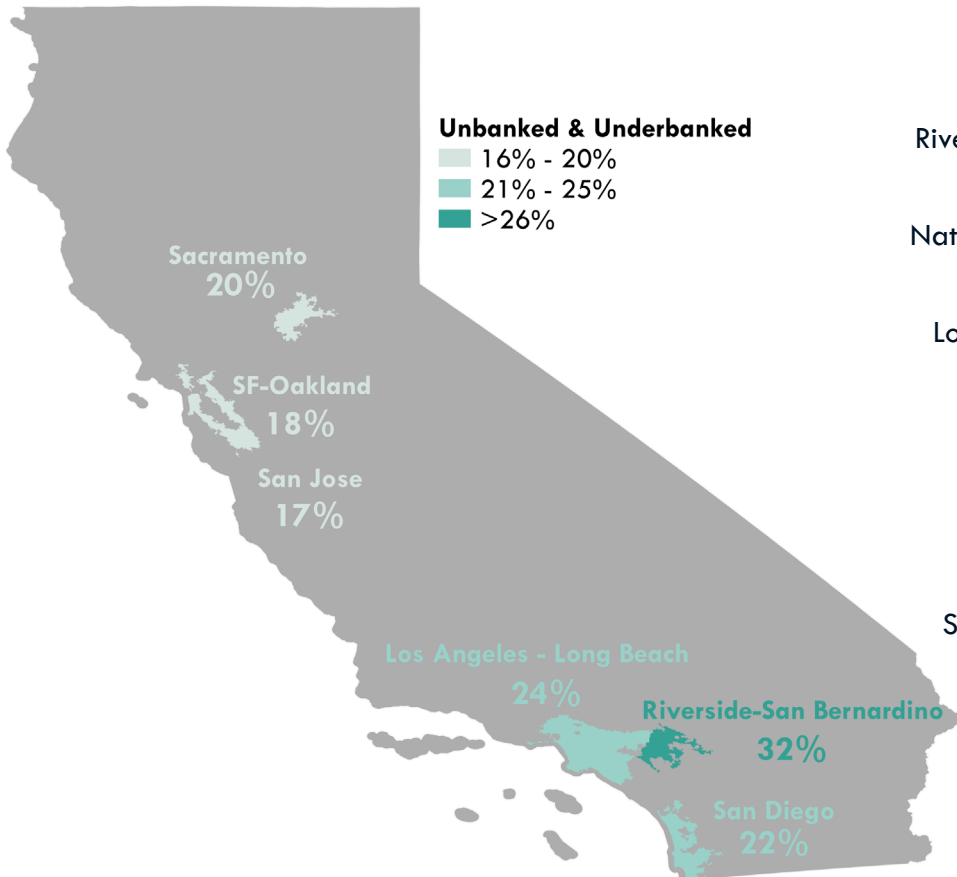
Moreover, **these rates are higher than the nation's**, where 26% of rural residents are considered unbanked or underbanked.

Unbanked & Underbanked by Location (2017)

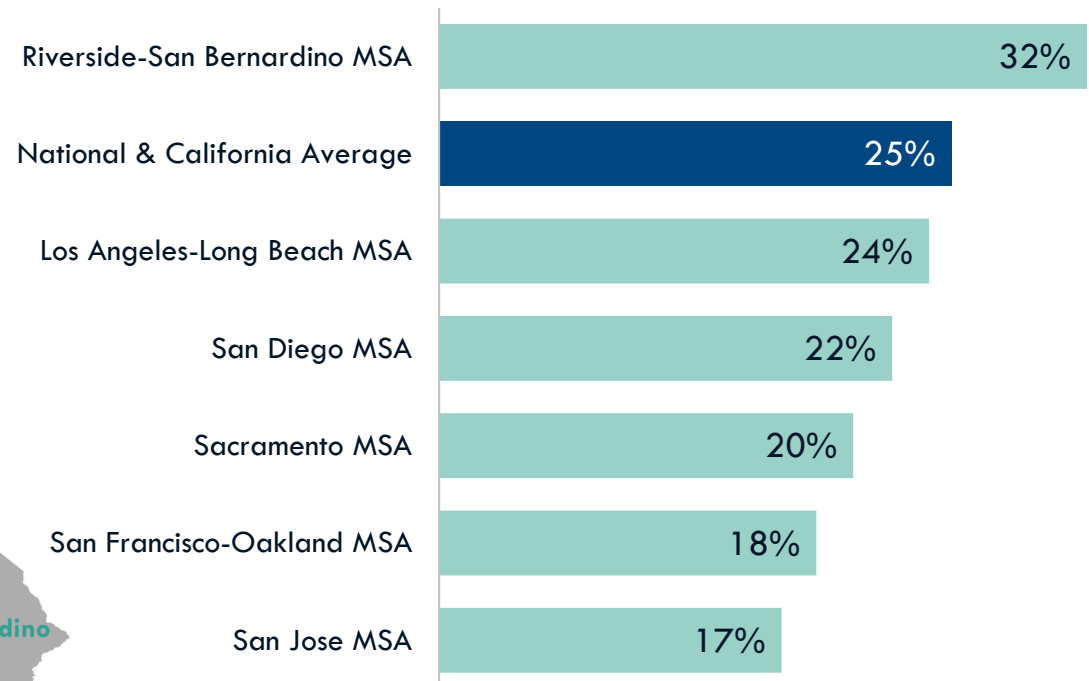


SOUTHERN CALIFORNIAN CITIES HAVE LARGE UNDERSERVED POPULATIONS

The FDIC provides data for six geographies across the state. Generally, **southern California has a higher proportion of unbanked and underbanked residents** than elsewhere in the state. Notably, the Los Angeles and Riverside-San Bernardino metropolitan statistical areas (MSAs) exceed the statewide and national average rate for unbanked residents (7 percent). The latter also exceeds the underbanked rate for the state and other MSAs.



Unbanked & Underbanked by MSA (2017)

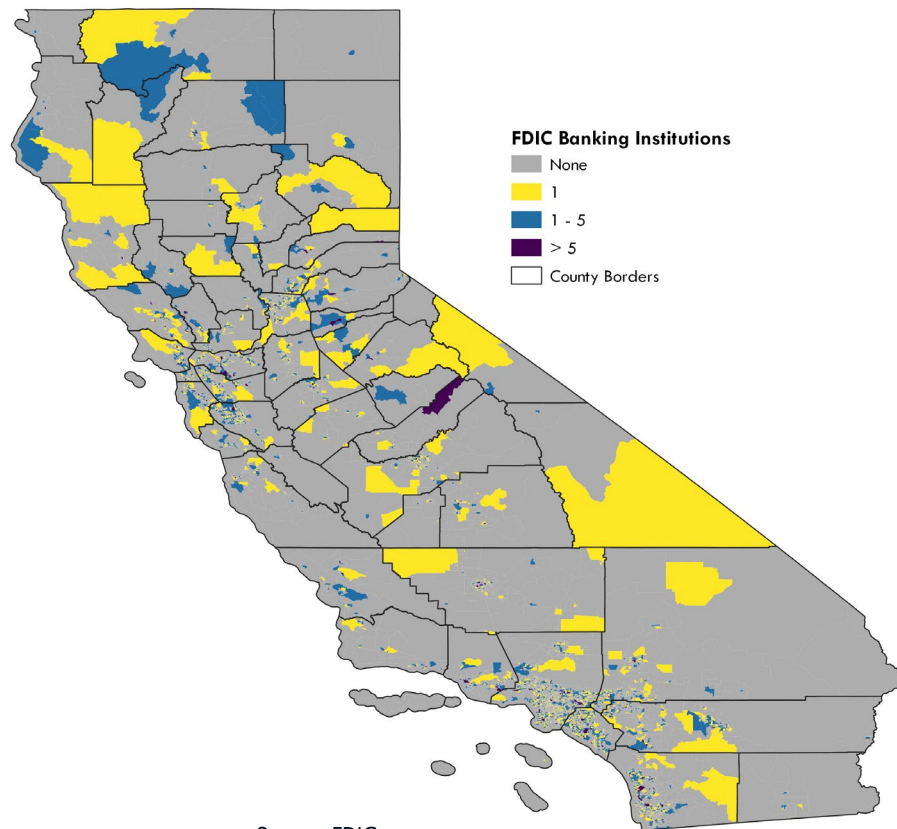


Source: FDIC

BANKING DESERTS REFLECT BARRIERS IN RURAL AND URBAN AREAS

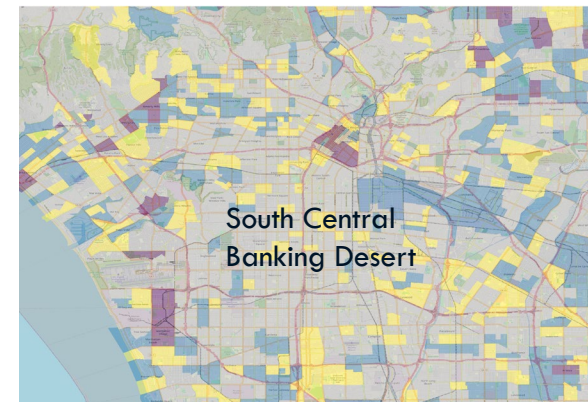
The geography of formal banking institutions reveals banking deserts in rural areas as well as within cities. Two thirds of census tracts in California do not have any physical banking outlets and another 16 percent have only one banking outlet. Furthermore, cities have large contiguous areas with very few banking outlets. In the Bay Area from West Oakland to Hayward there are large stretches without banks. In Los Angeles there are few banks from historic South Central to South Los Angeles. These banking deserts imply the existence of both policy and physical hurdles to accessing banking in these communities.

Banking Deserts in California (2020)

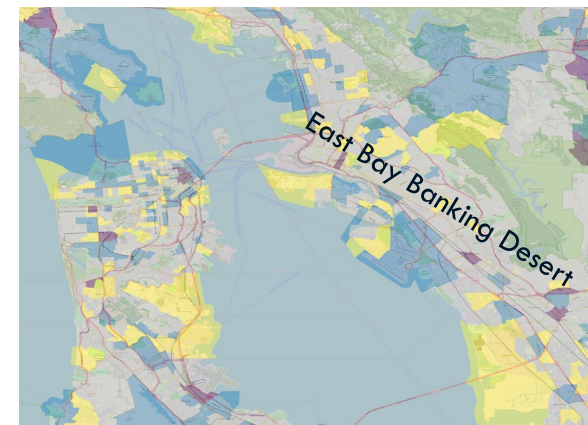


Source: FDIC

Banking Deserts in Los Angeles (2020)



Banking Deserts in the Bay Area (2020)



Source: FDIC, OpenStreetMap

ECONOMIC IMPACT OF INCREASING BANKING ACCESS

BANK ACCOUNTS COULD SAVE HOUSEHOLDS \$3.3 BILLION ANNUALLY

According to the Financial Health Network, in 2018 Americans spent \$189 billion on fees and interest for alternative financial services. Given the roughly 60 million unbanked and underbanked Americans, these preventable expenses average over \$3,100 per person annually.

Access to formal bank accounts could help Californians **recover some of these fees, estimated at \$931 per economically active household member annually**. The majority of savings would likely come from:



Single Payment Credit. Loans that are due in one payment over a short period of time, normally no longer than a month. This category includes overdraft, pawn, and payday loans.



Payment and Deposit Accounts. Intermediaries and entities involved in providing financial services and infrastructure that a bank needs to operate, each of which takes a cut (per account and/or transaction) that reduces revenue/increases costs.

\$3.3 Billion

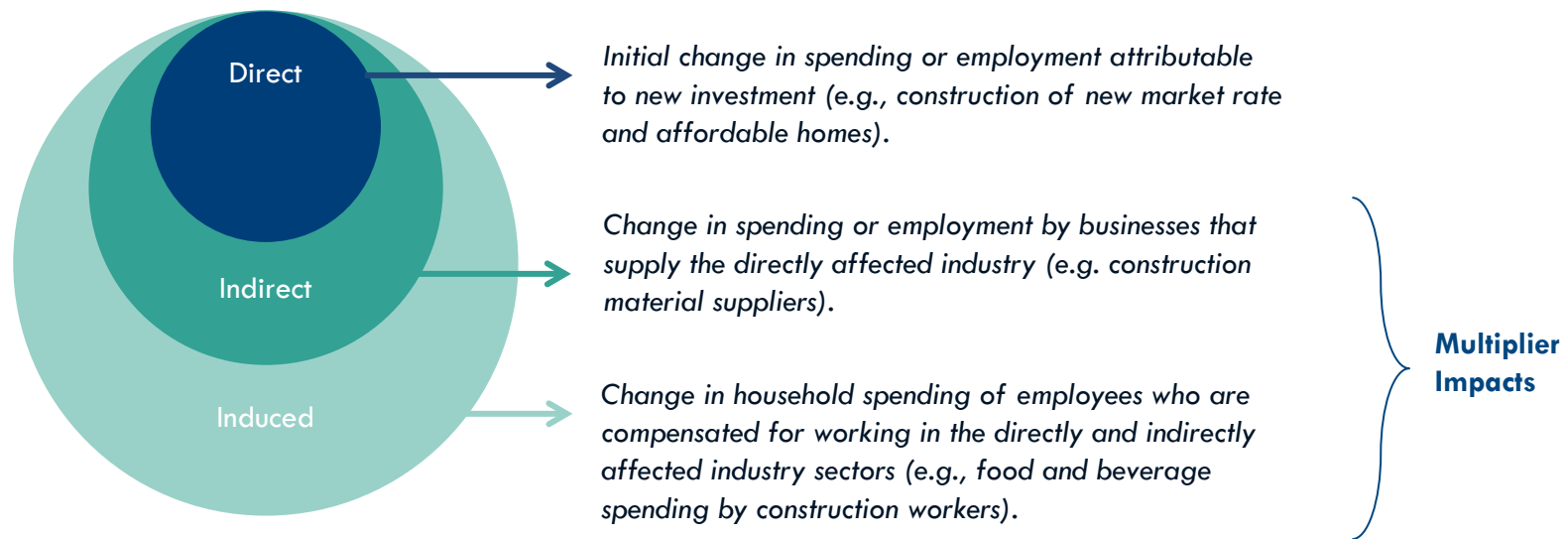
Potential Cumulative Savings to California
Households

Serving all 2.9 million unbanked and underbanked California households, or 3.5 million individual workers, translates into an estimated **cumulative household savings of \$3.3 billion per year**.

ECONOMIC IMPACTS WOULD EXCEED HOUSEHOLD SAVINGS

The \$3.3 billion saved on interest and fees will flow through the economy as households spend a portion of these savings. Total economic impacts are greater than \$3.3 billion through induced multiplier effects.

To measure this economic impact, HR&A completed an economic impact analysis on the household savings due to expanded banking access to all California households. Since household savings serves as the only input for this analysis, induced effects and total effects are synonymous.



FINANCIAL INCLUSION ADDS BILLIONS TO THE CALIFORNIA ECONOMY

With less money going towards financial fees and interest, solving the chronic problem of financial access for unbanked would free up household spending. Major beneficiaries of this spending would be the **housing, healthcare, finance, and retail industries**. Altogether, redirected household spending could result in a **total ongoing impact of \$4.2 billion** on the California economy and **support up to 22,000 jobs** annually.

These estimates do not consider the economic losses resulting in the payday lending and other non-depository financial institutions due to universal banking access. Research indicates that these financial products have a net negative impact on the economy. [One study](#) found that for every dollar of interest spent on a payday loan, \$0.24 is lost to the economy. Therefore, universal banking access **would likely have an even larger impact** on the California economy.

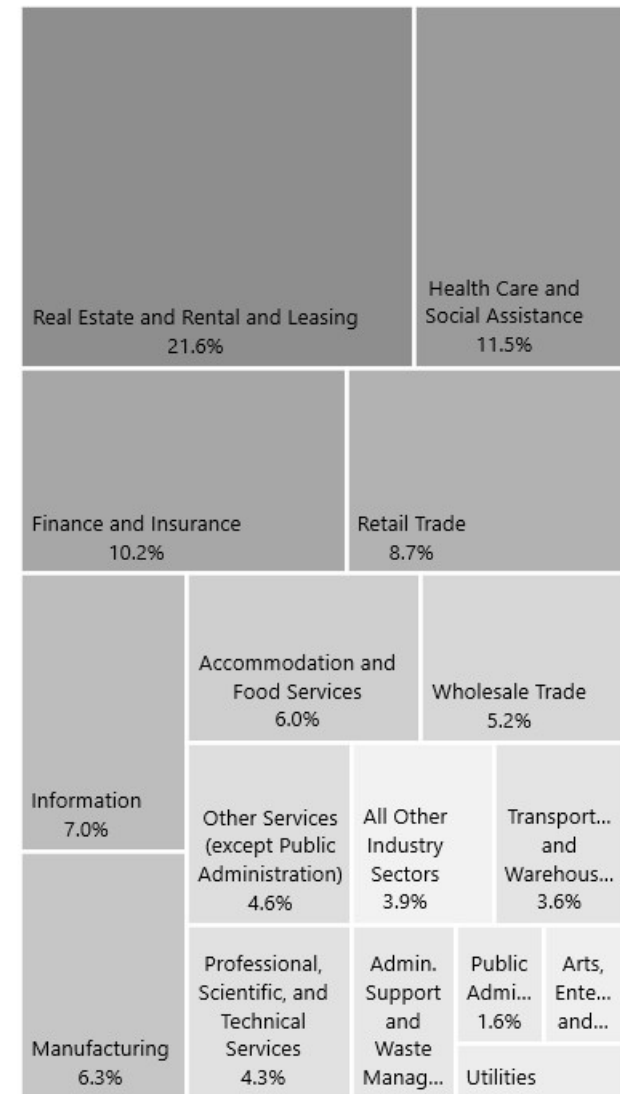
\$4.2B

TOTAL ECONOMIC IMPACT

22K

JOBS CREATED

Household Spending by Industry



Source: IMPLAN, HR&A Analysis