

RAND CalAccount Market Study & Feasibility Report

Update
February 15, 2024



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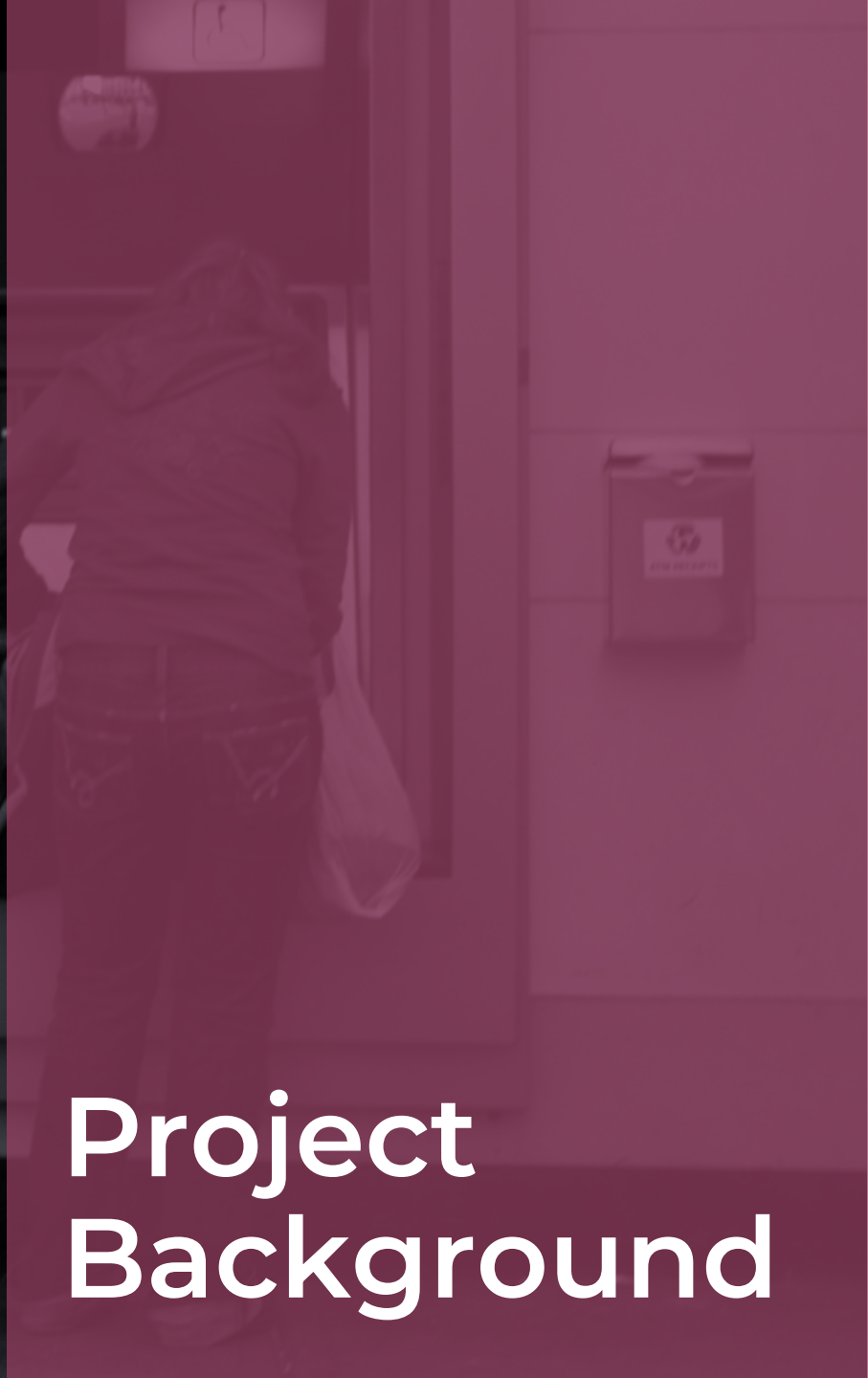
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Project Background

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Task Overview

1 Survey of Un(der)banked Californians

2 Landscape of Banking Options

3 Cost-Benefit Analysis

4 Impact Analysis

5 Operations Assessment

Task 1: Survey of Un(der)banked Californians

- Representative sample of 750 un(der)banked state residents
- Multi-mode bi-lingual survey
- Harmonize with FDIC survey (where possible)
- Data will be used to understand financial management strategies of the state's most vulnerable populations and their interest in a public bank

Task 2: Landscape of Banking Options

- Document the range of traditional and alternative banking options available across the state, along with their associated fees and balance requirements
- Investigate the presence and effectiveness of private-sector competitors through a geo-spatial lens
- Examine the effects of historical redlining on the current banking landscape
- Assess the role and effects of the ChexSystems in limiting bank access

Task 3: Cost-Benefit Analysis

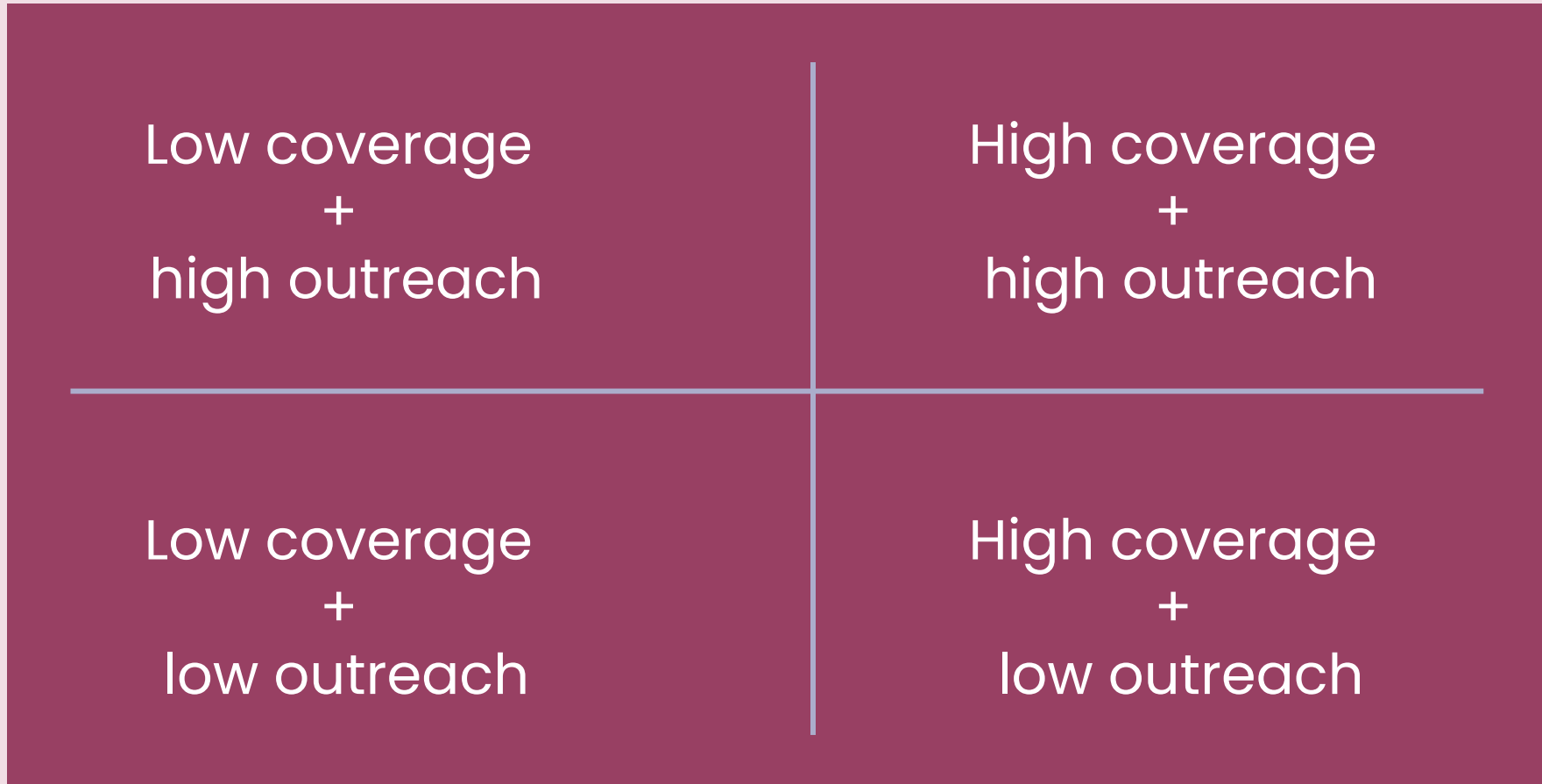
- Structured to comport with the California Administrative Procedure Act and to support a Standardized Regulatory Impact Assessment
- Determine costs and benefits to multiple stakeholders
- Establish different hypothetical scenarios to produce a range of possibilities

Task 4: Impact Analysis

Potential impact on

- Racial/ethnic and gender disparities in banked rates
- Short-term savings and long-term benefits to low-income families
- Public safety
- Existing banks

For tasks 3 and 4 we assume CalAccount can take one of four structures



Task 5: Operations Assessment

- Assess the feasibility of the proposed bank structure, with proposed modifications to ease burden
- Evaluate the process whereby individuals can participate without an ID
- Draw upon best practices to inform the governance of the board and public-private partnerships

Expert interviews are being drawn from a range of stakeholder communities



Banking



Legal/
regulatory

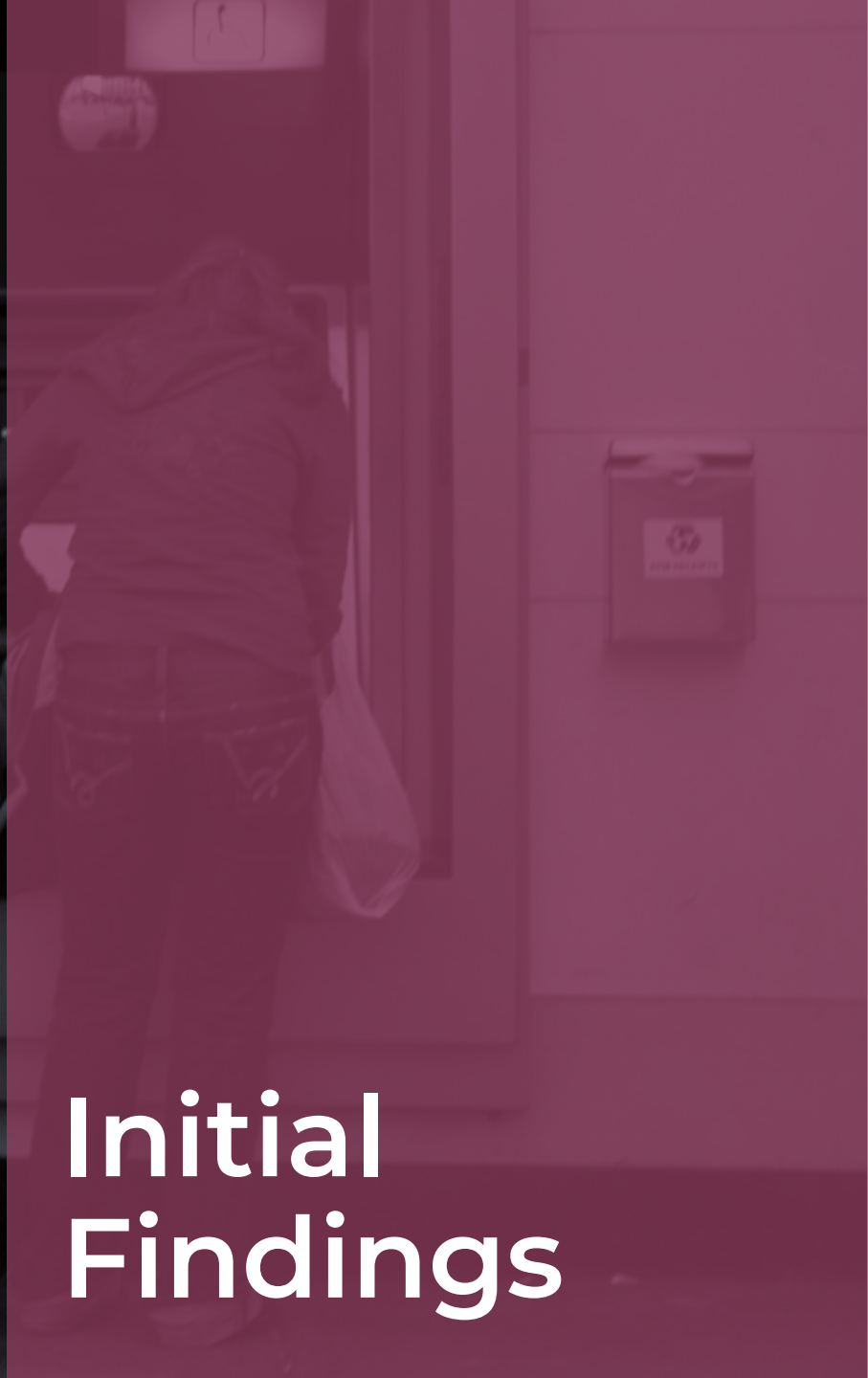


Customer
needs



Research

Interviews primarily support task 5 but inform tasks 2-4.



Initial Findings

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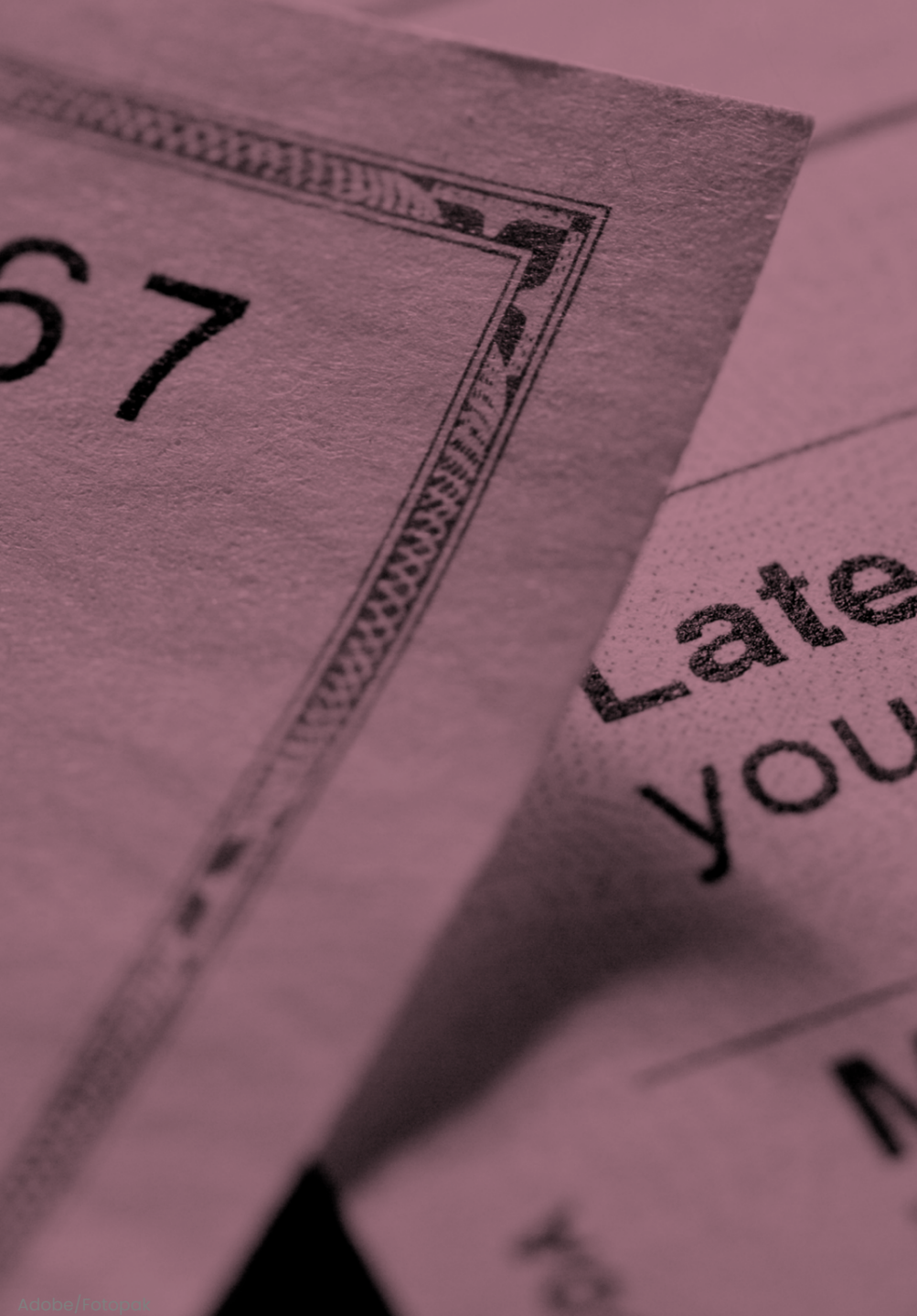
There are some current options for zero-fee and zero-penalty services

Some banks, credit unions (CUs), and non-bank online payment services offer

- Zero-fee deposit and withdrawal of account funds
- Zero-fee bill pay
- Most services are at no cost to account holders
- Zero penalty for overdraft

Transaction accounts are popular in un(der)banked households

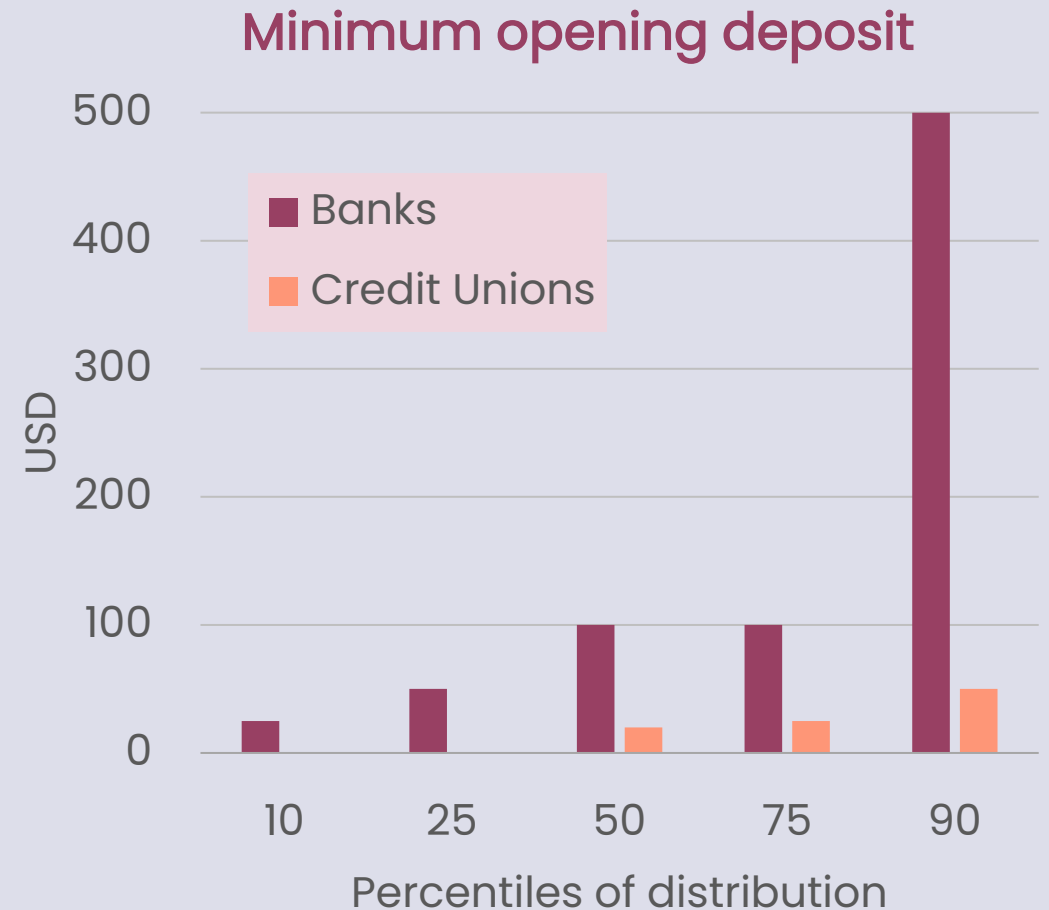
- GPR prepaid cards
- Non-bank online payment services
- Bank On accounts



What is the range of fees and balance requirements associated with traditional and alternative banking options available across the state?

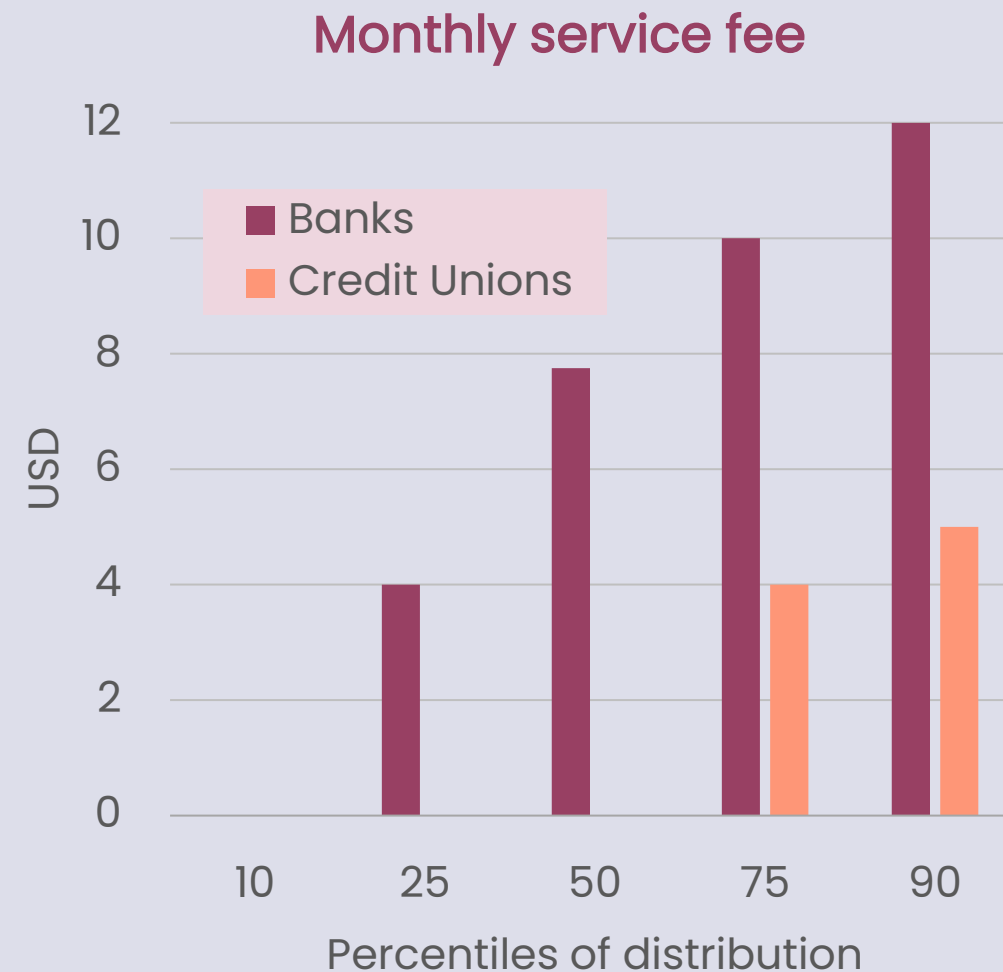
Most banks require a minimum deposit to open a checking account

- Minimum deposit to open checking account tends to be higher for banks than for CUs
- However, all CUs require that customers first open a savings account before they can open a checking account



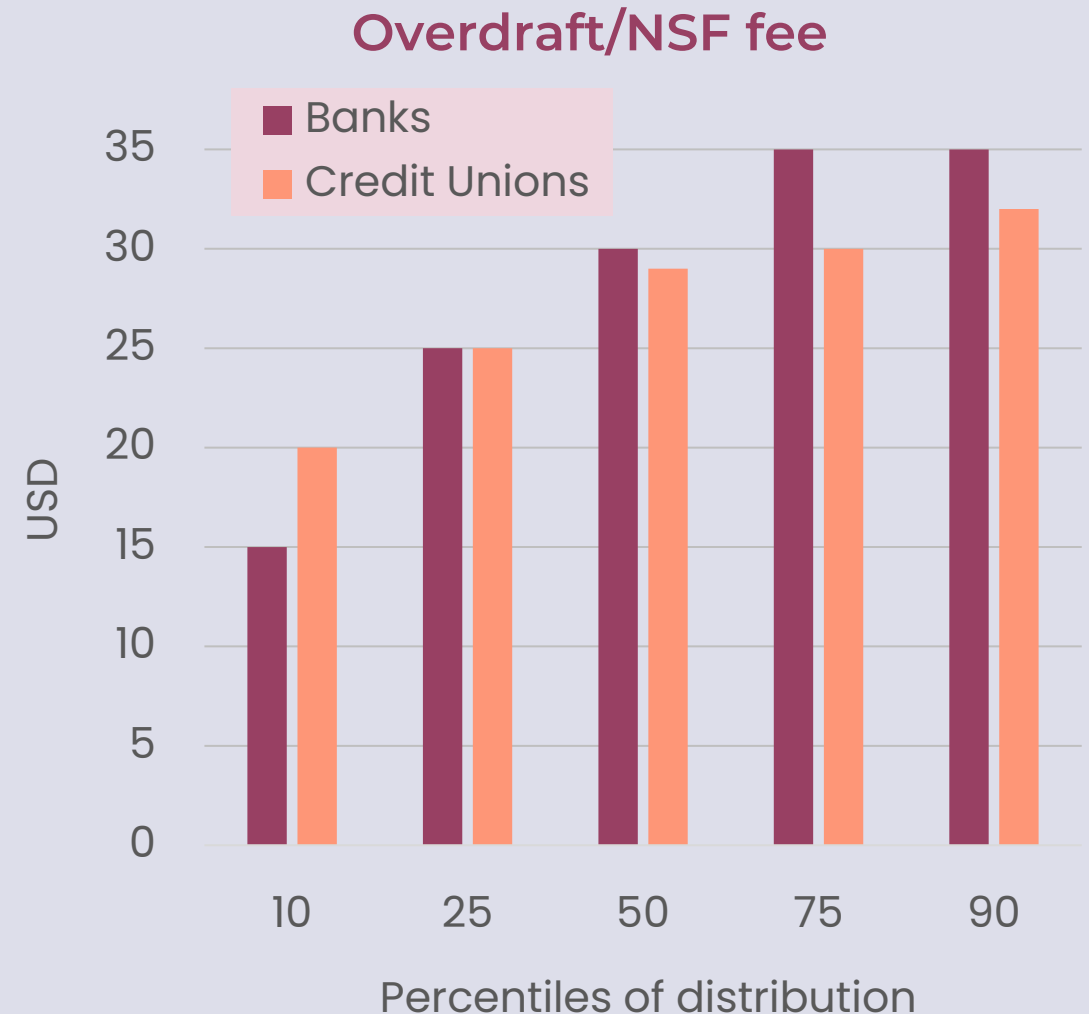
Most accounts have monthly service fees

- Monthly service fee tends to be higher for banks than for CUs
- However, several banks allow customers to waive this fee by:
 - Maintaining a minimum account balance of \$500–\$1,500
 - Having monthly direct deposit
 - Enrolling in E-Statements



The vast majority of banks charge overdraft/NSF fees

- Banks and CUs charge fees (e.g., overdraft or NSF fees) when consumers' transactions that exceed their account balance:
- Annual revenues from overdraft/NSF fees have declined recently but still exceed \$1 billion for some banks



Widely used non-traditional banking services pose significant fees

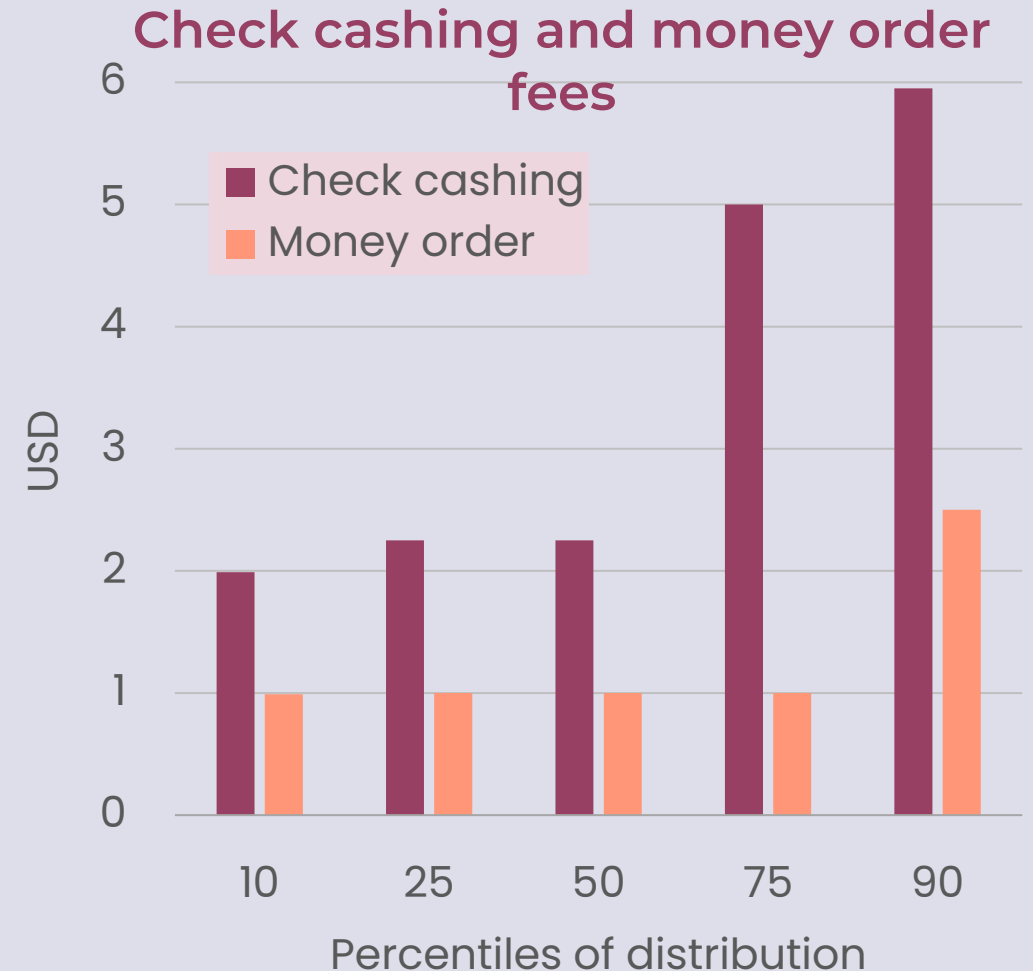
Collected fee data on non-traditional banking services used disproportionately by un(der)banked individuals:

- Check cashing services
- Money order services
- Money transfer services
- Reloadable general purpose prepaid cards

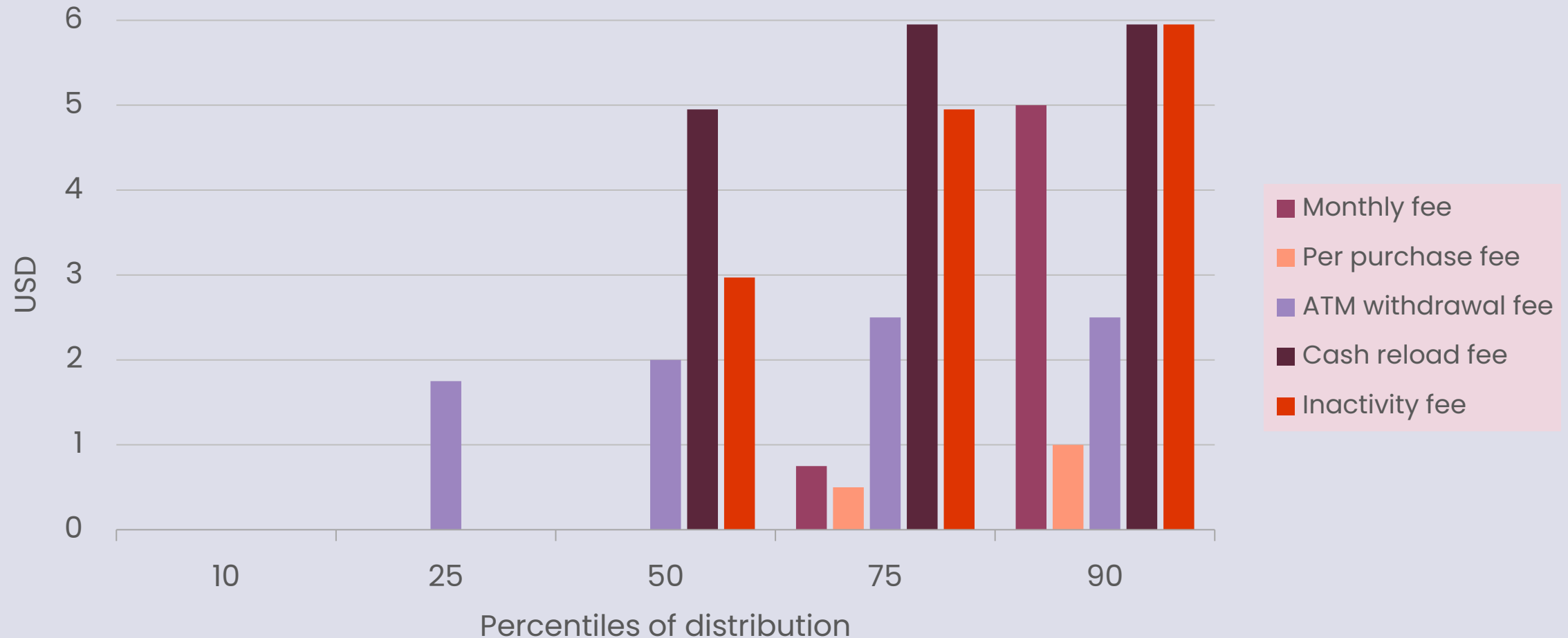
Our analysis draws from a random sample of these non-bank institutions

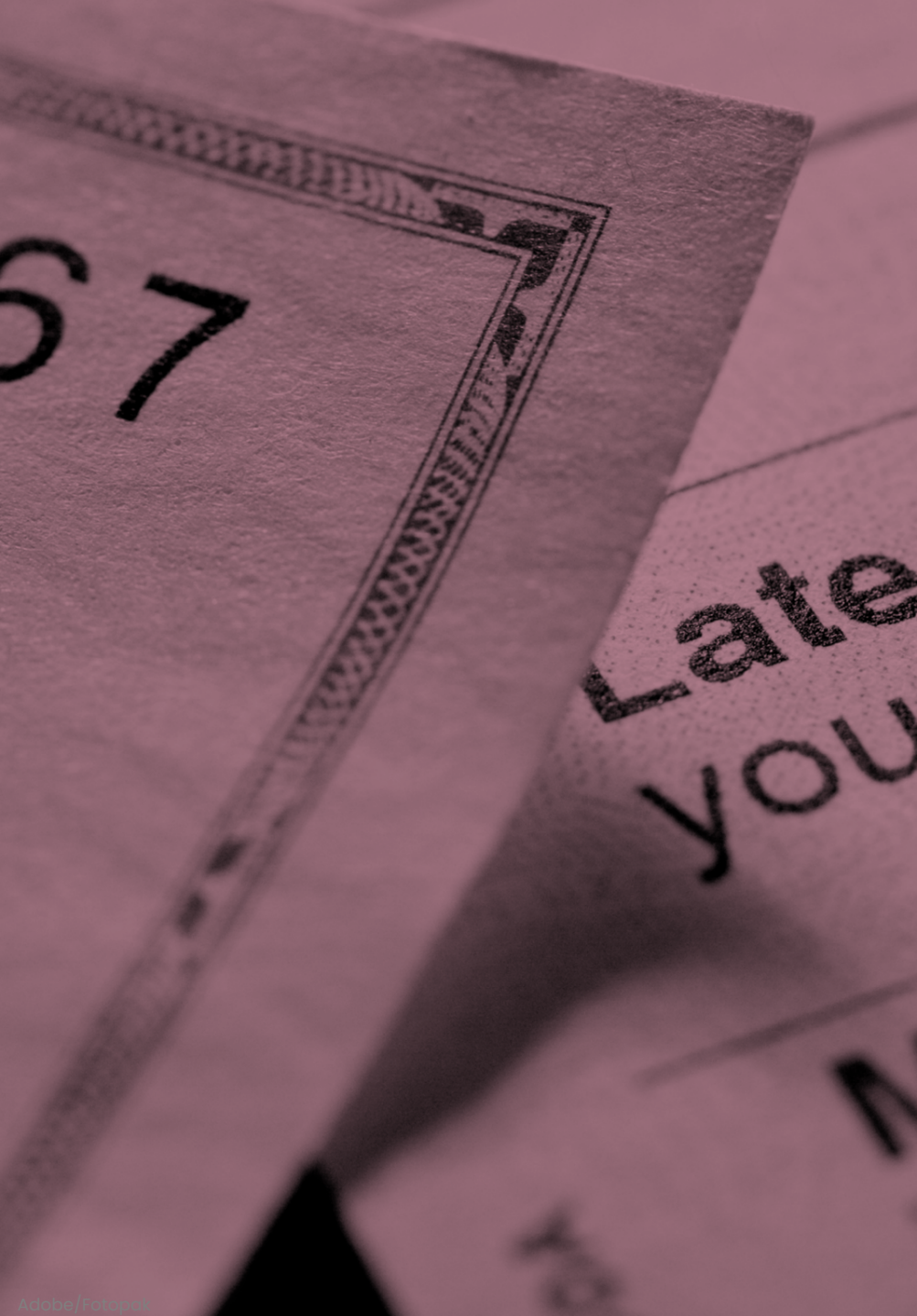
Check cashing and money order services carry meaningful fees

- Fee to cash a check increases with check amount
- Most vendors have a maximum money order limit of \$1,000
- Nearly all vendors charge \$10 to transfer \$1,000 abroad (Mexico)



General purpose prepaid card fees can carry a number of potentially high fees



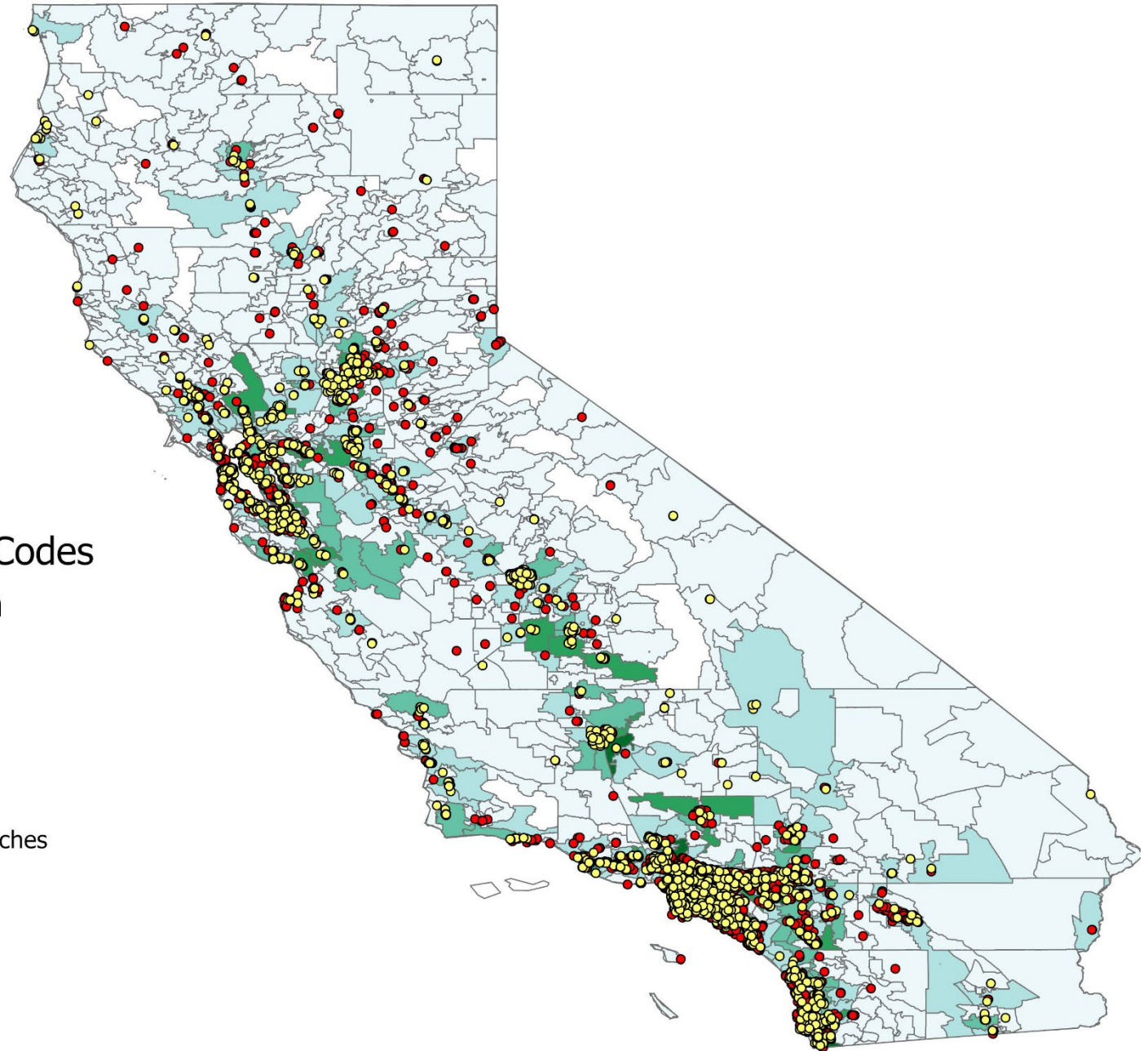
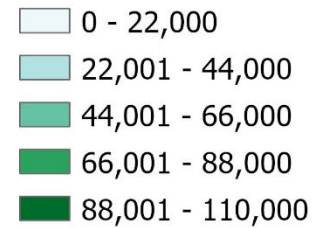


Does the geographic distribution of bank branch locations point to gaps in service?

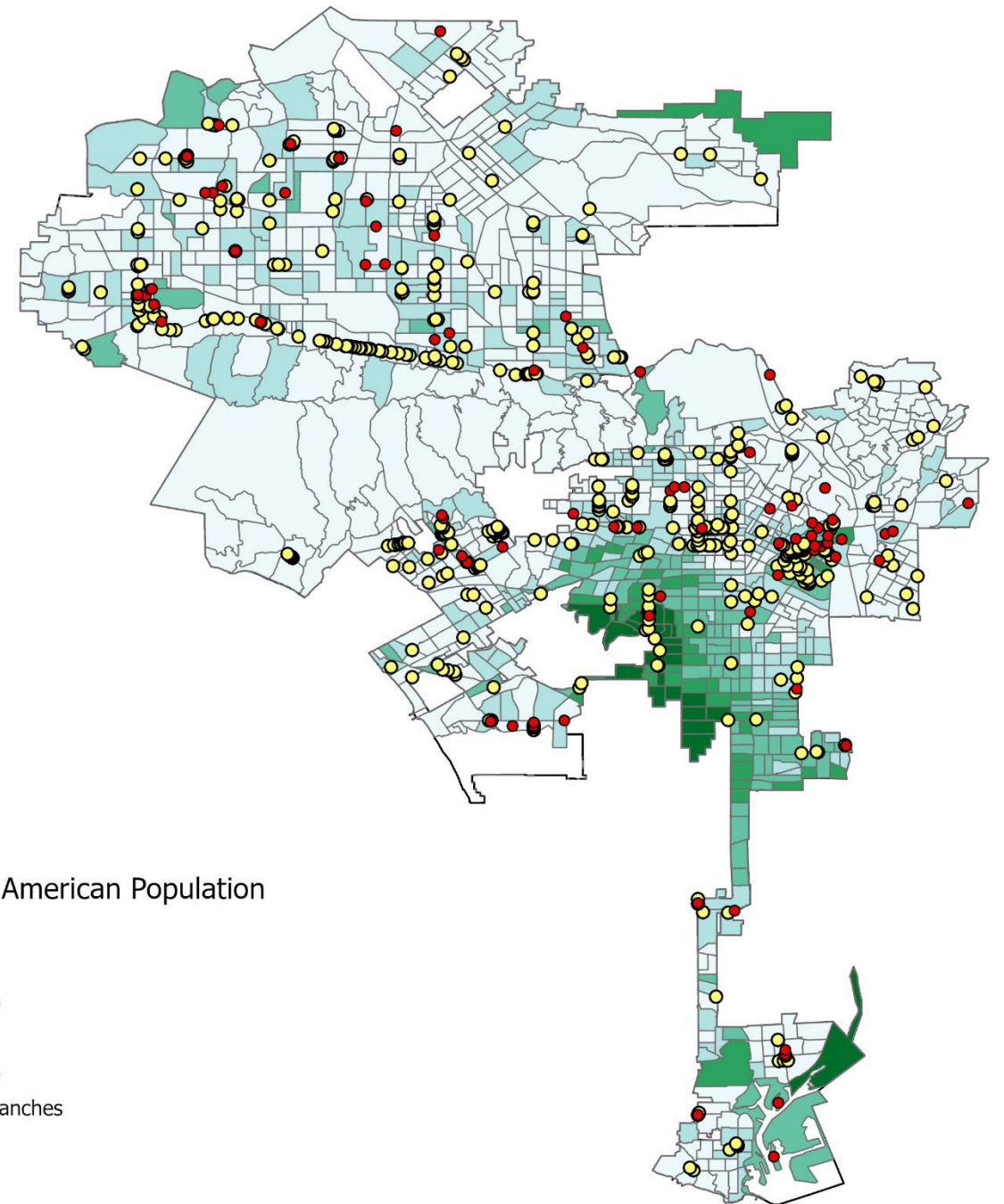
Bank & CU locations tend to cluster near population centers

California Zip Codes

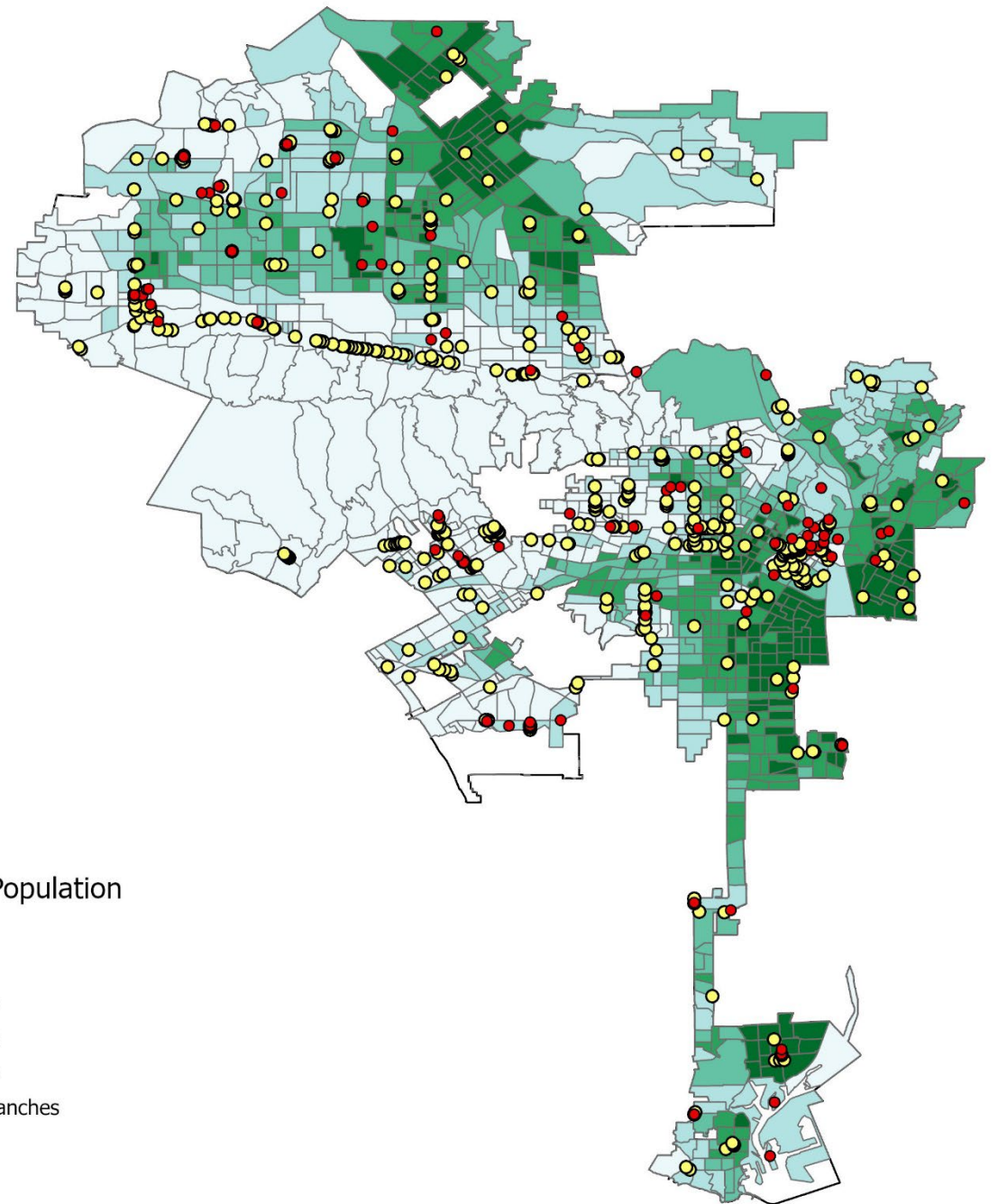
Total Population



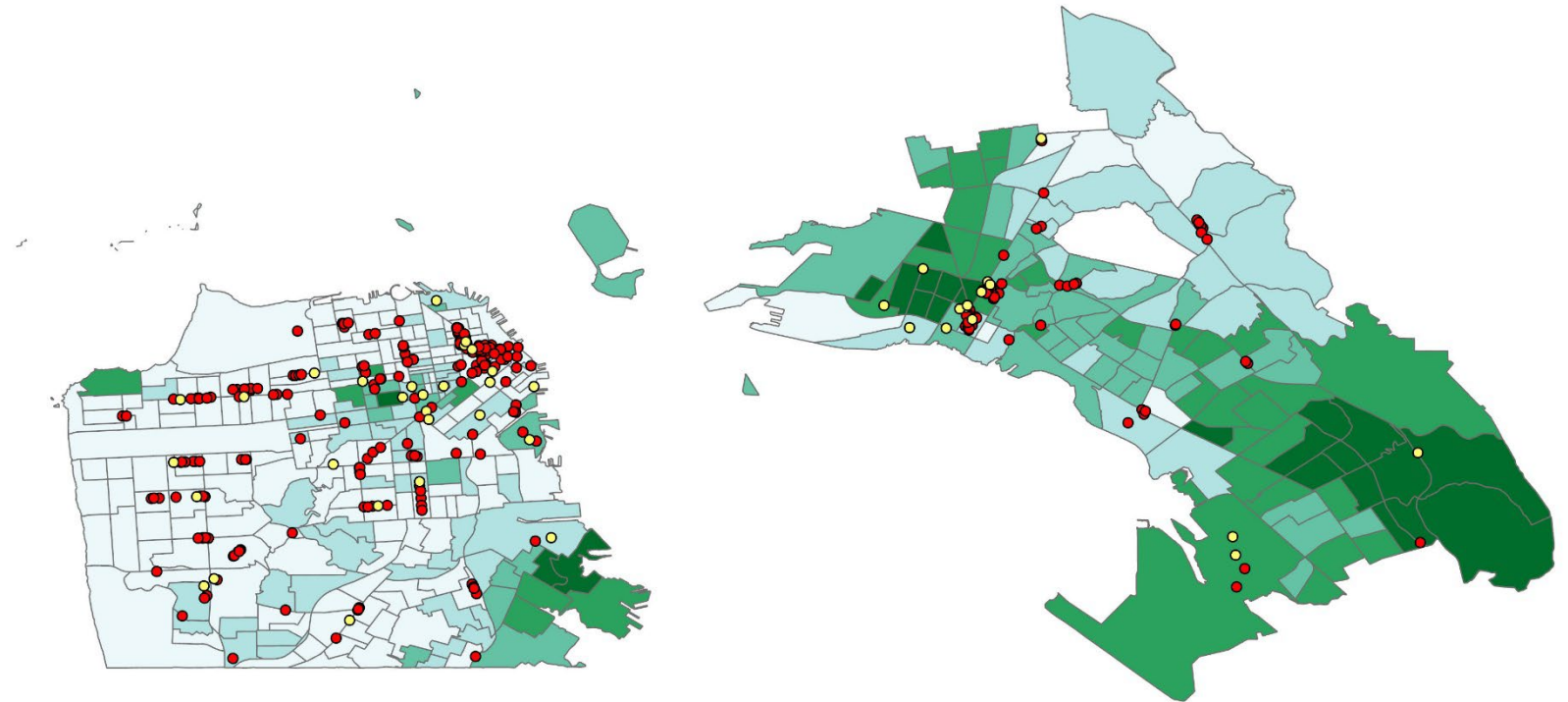
Bank & CU locations have an unclear relationship with the Black share of the population in Los Angeles



Bank & CU locations have an unclear relationship with the Latino share of the population in Los Angeles



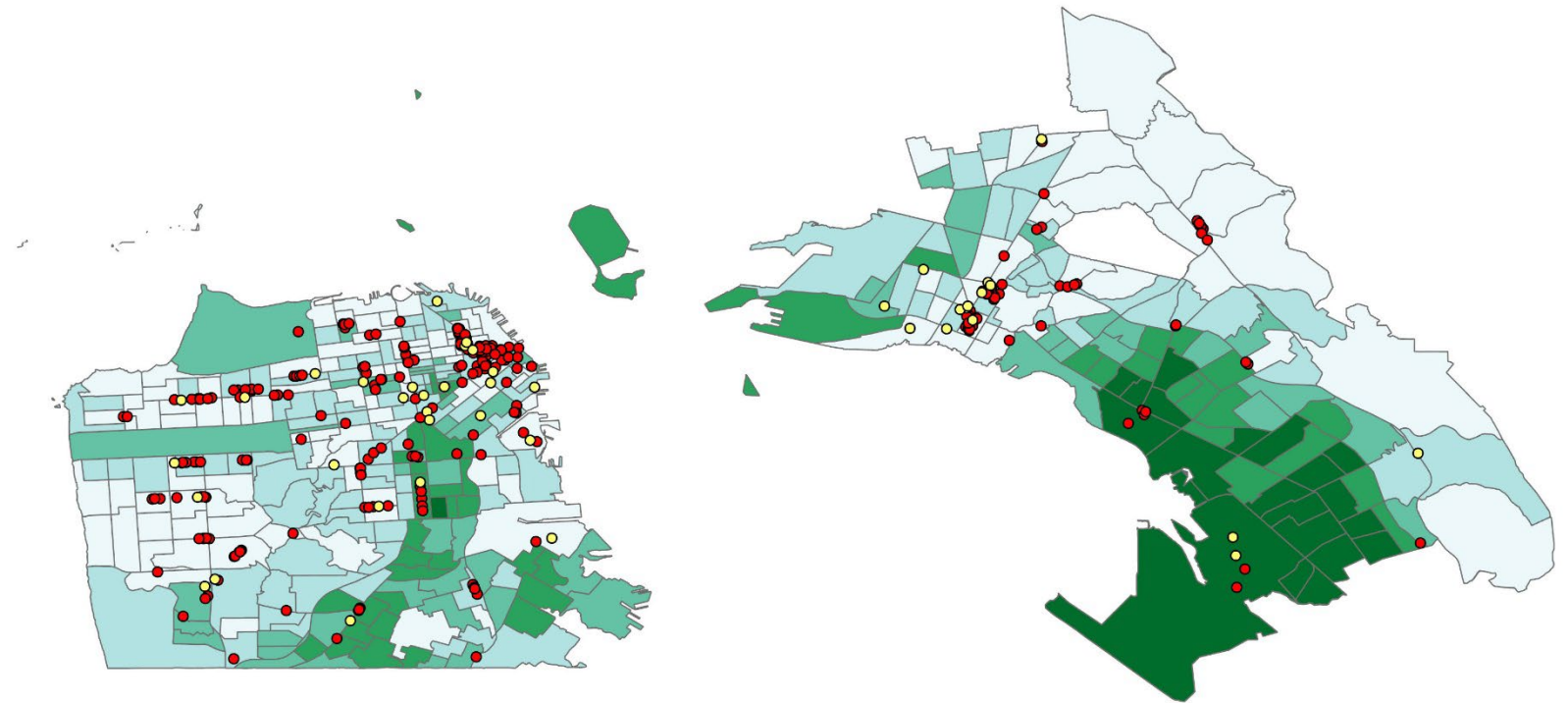
Bank & CU locations may have a relationship with the Black share of the population in San Francisco and Oakland



San Francisco & Oakland
Percent African American Population

- 0% - 4.3%
- 4.4% - 11%
- 11.1% - 20.4%
- 20.5% - 34.2%
- 34.3% - 58.9%
- Credit Union Branches
- Bank Branches

Bank & CU locations may have a relationship with the share of the Latino share of the population in San Francisco and Oakland



San Francisco & Oakland

Percent Latino Population

0% - 9.5%

9.6% - 17.1%

17.2% - 28.3%

28.4% - 45.7%

45.8% - 78.2%

● Credit Union Branches

● Bank Branches

How can individuals participate without an ID?





Federal rules on customer identification are strict

- CalAccount intended to serve “individuals who may not have federal or state government-issued photo identification” (AB 1177)
- USA PATRIOT Act (incorporated into Bank Secrecy Act [BSA]) requires banks to adopt a Customer Identification Program
- A person, including a bank employee, who willfully violates the BSA or its implementing regulations is subject to a criminal fine of up to \$250,000 or five years in prison, or both

Banks balance risk and liability related to BSA

- Rules and guidance leave discretion to financial institutions (“reasonable belief”)
- Risk-focused approach can consider
 - types of accounts offered
 - methods of opening account
 - sources and types of identifying information available
 - financial institution’s size, location, customer base
- Federal regulations (31 C.F.R. § 1020.220) explicitly provide for verification through both documents and nondocumentary methods



Observations and Next Steps

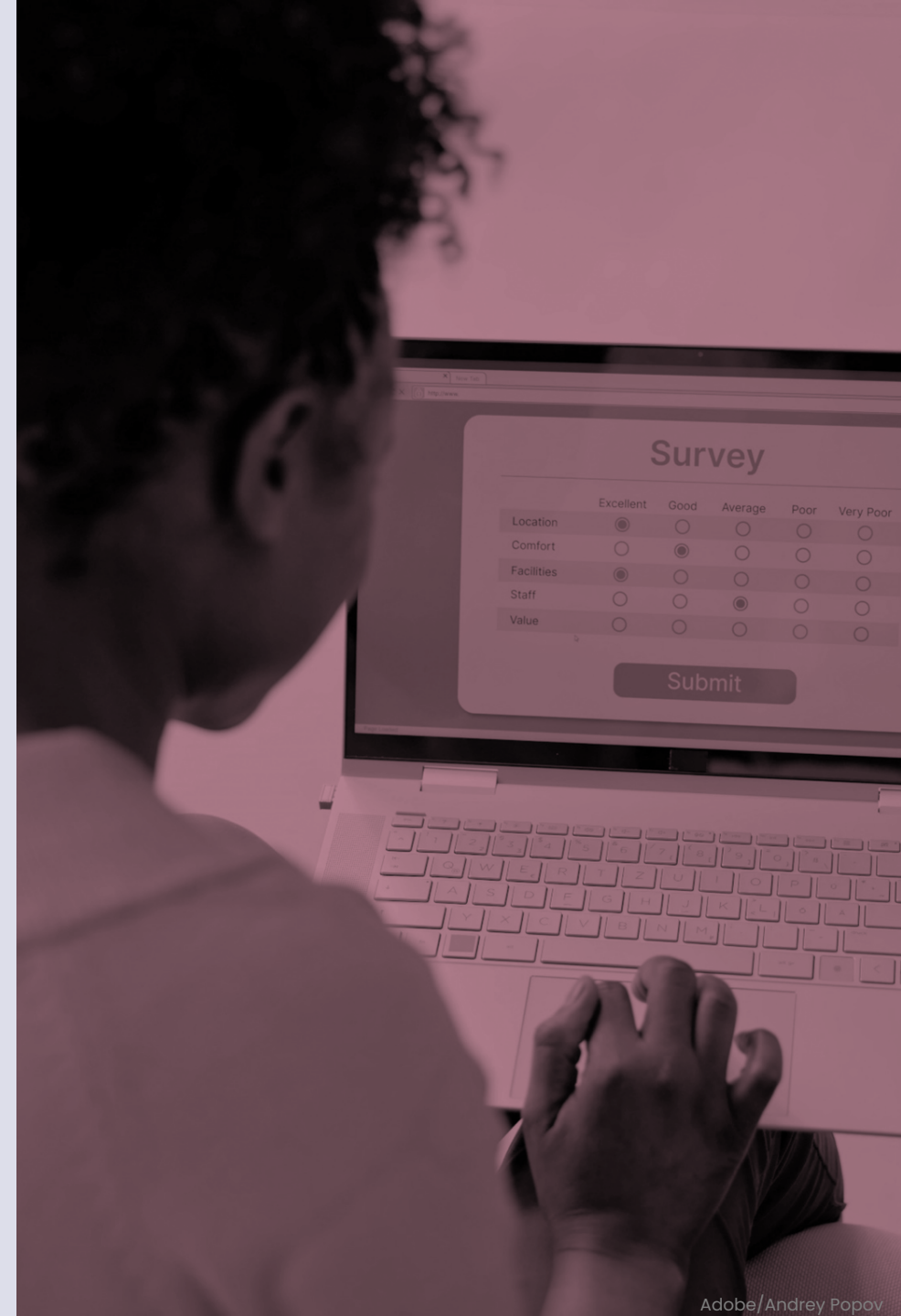
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Preliminary observations

- CalAccount success hinges on effective rollout
- Government, business, and nonprofits will each play critical roles
- Trust/mistrust is underlying factor
- Business case alone may be insufficient to persuade financial institutions

Next steps

- Completion of the RAND survey
- Continued interview engagement
 - Common ground regarding policy problem
 - Liability, fraud, and loss concerns
 - Appropriate governance and oversight mechanisms
 - Feasibility of fintech model/role
- Continued analysis of benefits, costs, and broader impacts





SOCIAL AND ECONOMIC WELL-BEING

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