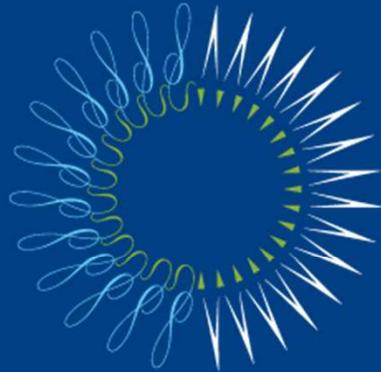


Not Intended for public release before 1pm Pacific Time on February 6, 2014



THE
PEW
CHARITABLE TRUSTS

Hearing on “Bank On California”
Committee on Banking and Finance
California State Assembly

Nick Bourke
February 6, 2014

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Consumer Financial Security



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Prepaid Cards

Checking & Banking

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- Bank accounts
 - Most consumers want one
 - Helps many build financial strength through savings and credit
- But: millions of Americans are turning away from banks for some or all of their financial needs
- Because: non-bank products providing something banks are not
 - Better control
 - Shelter from overdraft fees
 - Security against overspending and temptations from credit

1. Millions turning to products outside bank system

- Los Angeles LMI households
 - 1/3 of households w/ bank accounts also use non-bank financial services
- Conversely, many who use non-bank services *also have a bank account*

Most Prepaid Card Users Have Checking Accounts



2. Desire for control is driving prepaid adoption

- Why are so many people looking for financial services outside the banking system?

Consumers' Reasons for Using Prepaid Cards

	Major reason (%)	Total reason (%)
Control spending		
Avoiding credit card debt	52	67
Helping you not spend more money than you actually have	51	66
Dividing your spending into budget categories	30	54
Control fees		
Avoiding overdraft fees	46	63
Avoiding check cashing fees	38	57
Make purchases		
Making purchases online and other places that don't accept cash	51	72

2. Desire for control is driving prepaid adoption



- Consumers are turning to *prepaid cards* for more control because:
 - Today, the vast majority of prepaid cards do not allow overdraft
 - (Note: this could change at any time due to lack of regulation)

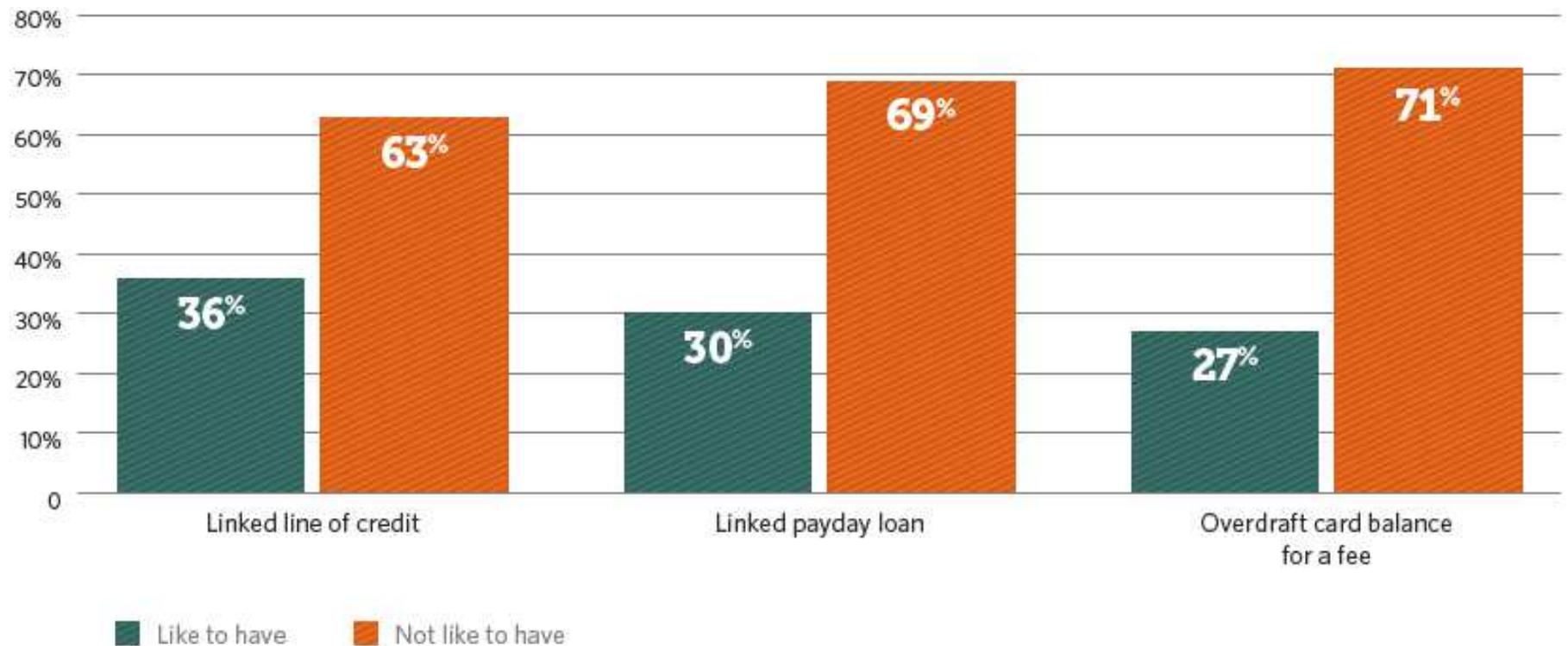
2. Desire for control is driving prepaid adoption



- Contrast to banks and credit unions:
 - Overdraft is ubiquitous
 - Median overdraft fee \$25 (credit unions), \$35 (banks)
 - Customers can typically incur 4 overdraft fees *per day*
 - Overdraft is also part of many Bank On affiliated accounts

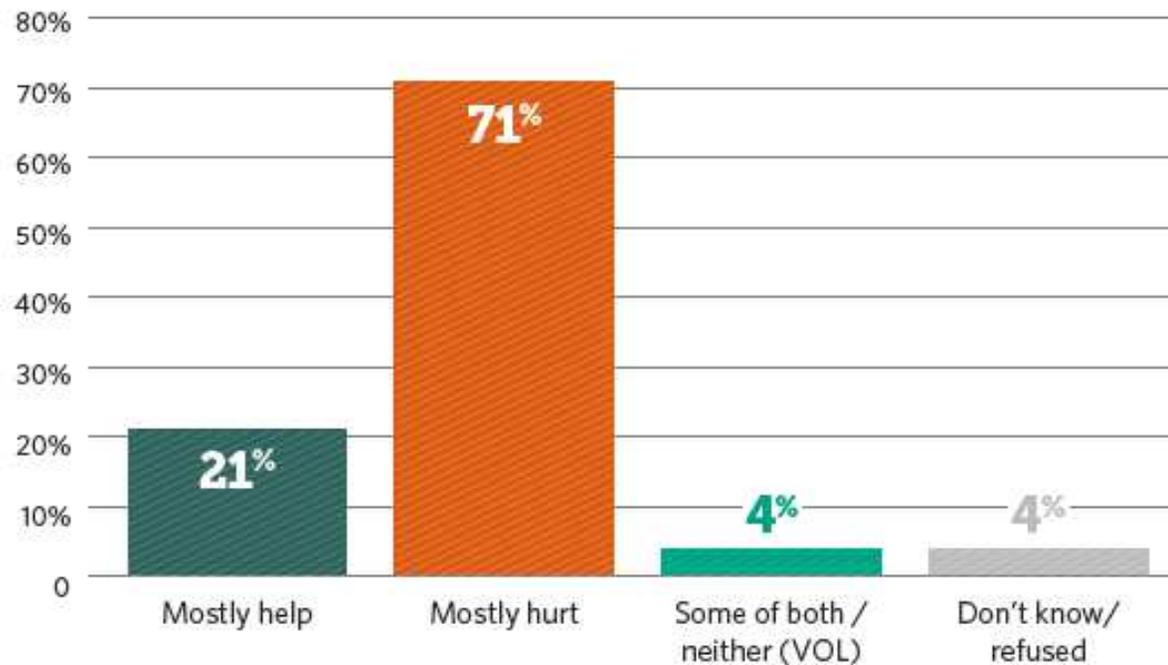
3. Prepaid users do not want overdraft or automated credit or automated credit

Prepaid Users Do Not Want Overdraft or Linked Credit Features



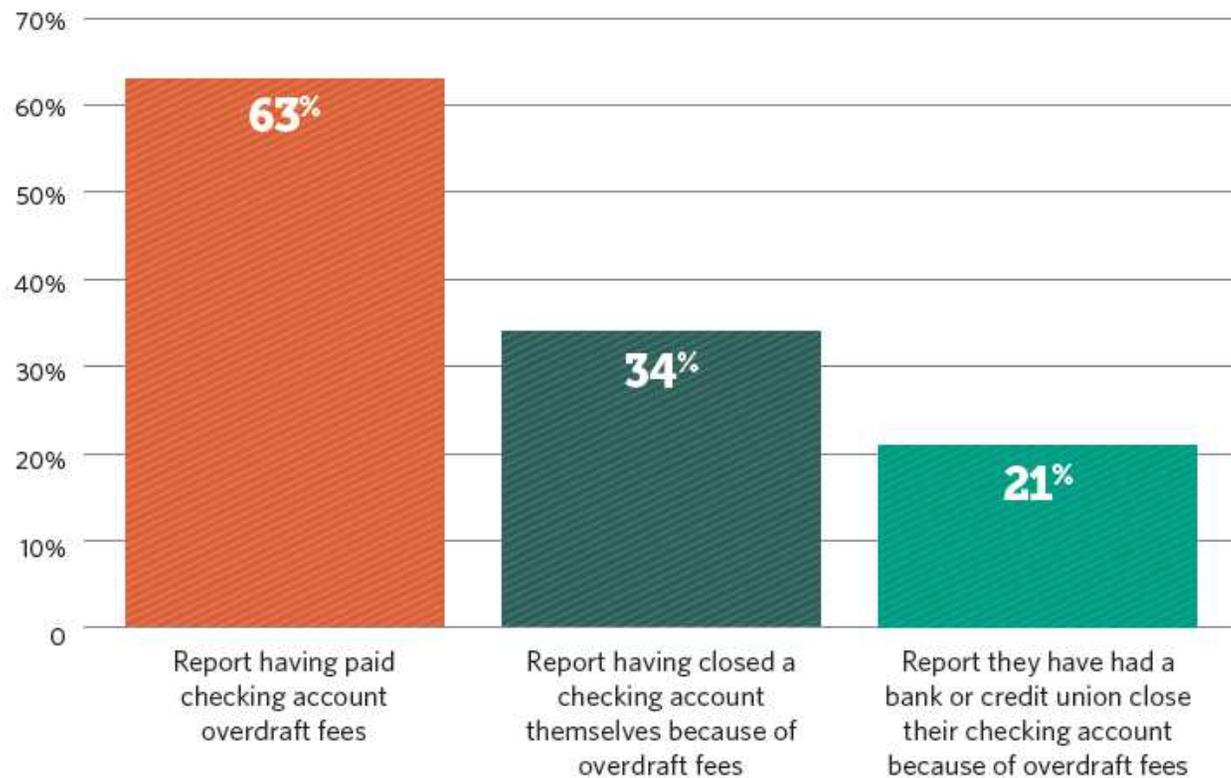
3. Prepaid users do not want overdraft or automated credit

Customers Think Fee-Based Overdraft Would Mostly Hurt Them



3. Prepaid users do not want overdraft or automated credit

Prepaid Card Users Have Struggled with Checking Account Overdraft Fees



41%
of prepaid card users say they have closed or lost a checking account because of overdraft fees.

4. Lessons From Prepaid for Bank On



The fact that the majority of prepaid users also have a checking account strongly suggests that they are looking for services or features that banks are not providing.

The strength of consumer opinion in favor of more control, and against overdraft and overspending, tells us what many consumers are looking for when they go outside the bank system.

Yet bank checking accounts—including many offered through Bank On programs—continue to place overdraft as a core product feature

5. The Limited Benefits of Access to Credit



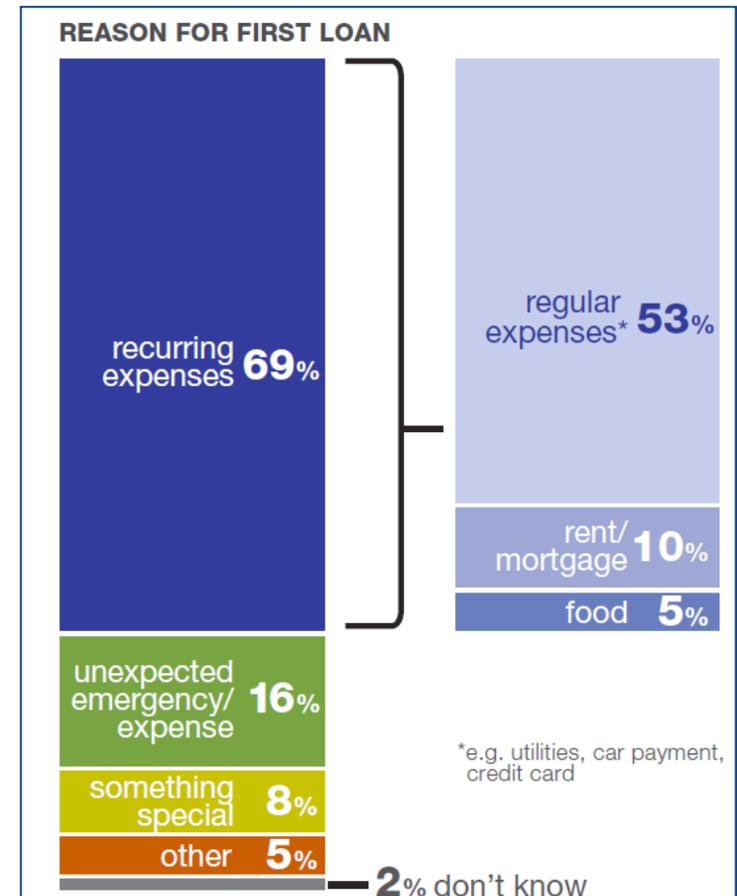
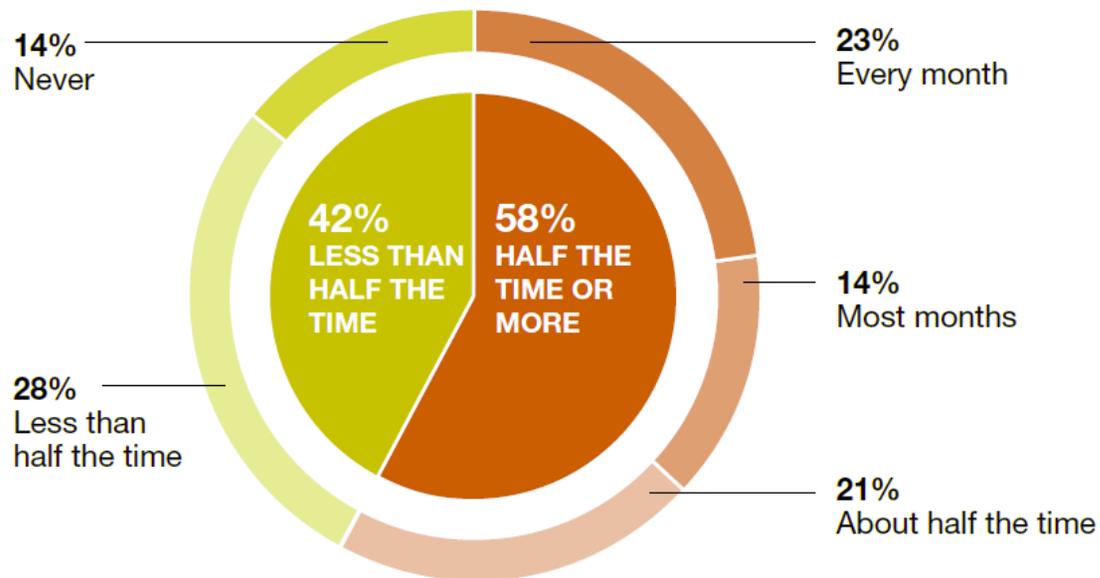
- In general, improving access to credit is a worthy goal
- But the benefits are limited
 - THIN file consumers have much to gain
 - THICK file consumers are already carrying debt and many are struggling to keep up with their bills. For them, the benefits of more credit are not so clear.
- The case of payday lending helps illustrate this point

- Packaged as “short-term” loan for “temporary needs”
 - Obtained from storefronts, online, some banks (“deposit advance”)
- Little to no underwriting
 - Borrower has an income source and checking account
- Lender can debit bank account to collect (deferred presentment)
- Short repayment period, tied to borrower pay cycle
 - If borrower cannot pay in full, pays fee to renew, or borrows again
- Avg. loan is \$375
 - Fee per 2 wks: \$55 store, \$95 online, \$35 bank

- 12 million users per year, spending about \$7.4 billion
- Average income about \$30,000 per year
- “Thick File” credit histories
 - Almost all have a credit score – low 500s
 - Most have credit cards – usually maxed out

Most Borrowers Use Payday Loans for Monthly Bills

FREQUENCY OF TROUBLE MEETING BILLS:

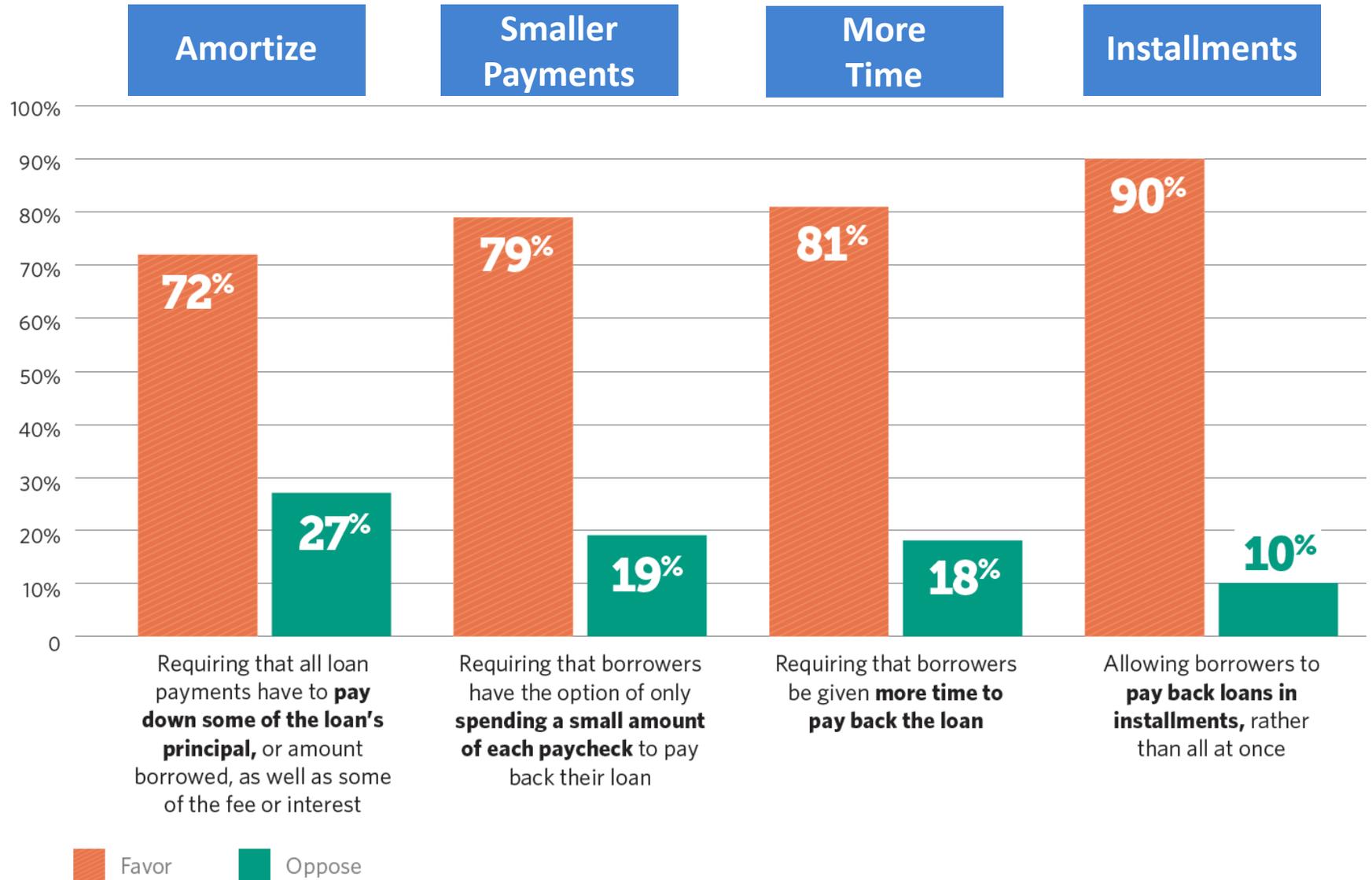


Payday Loans Are Fundamentally Unaffordable



- Typical payday loan takes a large portion of pretax paycheck
 - 36% on average nationwide; 25% in California (smaller loans)
- But most borrowers cannot afford to pay more than **5% of their pretax paycheck**
 - As shown by national survey data, underwritten installment loan markets, conventional payday loan fee amount, CO case study

Payday Borrowers Want Something Different



6. Lessons From Payday for Bank On

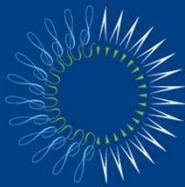


Promoting access to beneficial credit for *thin file* consumers is a worthy goal.

Yet for *thick file* consumers, the benefits of credit are not so clear. It is entirely possible that consumers who are already struggling with debt have financial problems that cannot be solved by obtaining *more* credit.

Whenever more credit *is* made available, a few sensible guidelines must be established to avoid widespread harm—starting with *ability to repay* standards and including protections for borrower deposit accounts.

Pew's recommendations: www.pewtrusts.org/small-dollar



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