

THE  
**PEW**  
CHARITABLE TRUSTS

# **Los Angeles Banking Study Wave One Results**

**Revised December 6 2010**



## The Pew Health Group's Financial Security Portfolio

- ▶ **Organizational structure reflects Pew's view that financial security is a key component of Americans' health and guides approach to federal policy on consumer financial products and services**
  
- ▶ **Projects include:**
  - Safe Banking Project – research and analysis, Bank On. LA study
  - Safe Credit Card Project – Standards, reports, CARD Act advocacy
  - Safe Checking Project - research and advocacy to eliminate unfair and deceptive practices
  - Retirement Security Project – research , auto IRA bill
  - Student Debt Project – research on student lending, Miller bill
  
  - Upcoming research project on predatory lending



## The LA Panel Study

- ▶ **Why are households unbanked?**
- ▶ **How do the unbanked manage their financial affairs?**
- ▶ **What consequences does being unbanked have?**
- ▶ **Are these positive or negative?**
- ▶ **What barriers to becoming banked do the unbanked experience?**
- ▶ **How can national public policy be used to improve the financial security of more Americans through the banking system?**
  
- ▶ **California's large economy and forward-looking policy environment provides an optimal setting to look at these issues in depth.**

# Study's Purpose

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- ▶ **Identify and measure the financial service needs, perceptions and behaviors of low-and moderate-income households in eight neighborhoods of Los Angeles**
- ▶ **Inform and evaluate the efficacy of publicly-led programs, which aim to connect qualified unbanked households to specific banking opportunities, especially Los Angeles' Bank On programs**
- ▶ **Determine the effects of being or becoming banked on specific health outcomes**
- ▶ **Provide a basis for policy solutions on a local, state or national scale**

# Survey Methodology

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- ▶ **Panel of 2021 households from eight targeted neighborhoods**
  - Boyle Heights: 298 households
  - South Figueroa Corridor: 177 households
  
- ▶ **Customized random location sampling to ensure inclusion and representation**
  
- ▶ **Door-to-Door approach with bilingual surveyors to address sensitivity of subject matter, ensure accuracy and maintain contact with a transient population**
  
- ▶ **Two waves**
  - July – September 2009
  - July – September 2010

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# Topline Findings

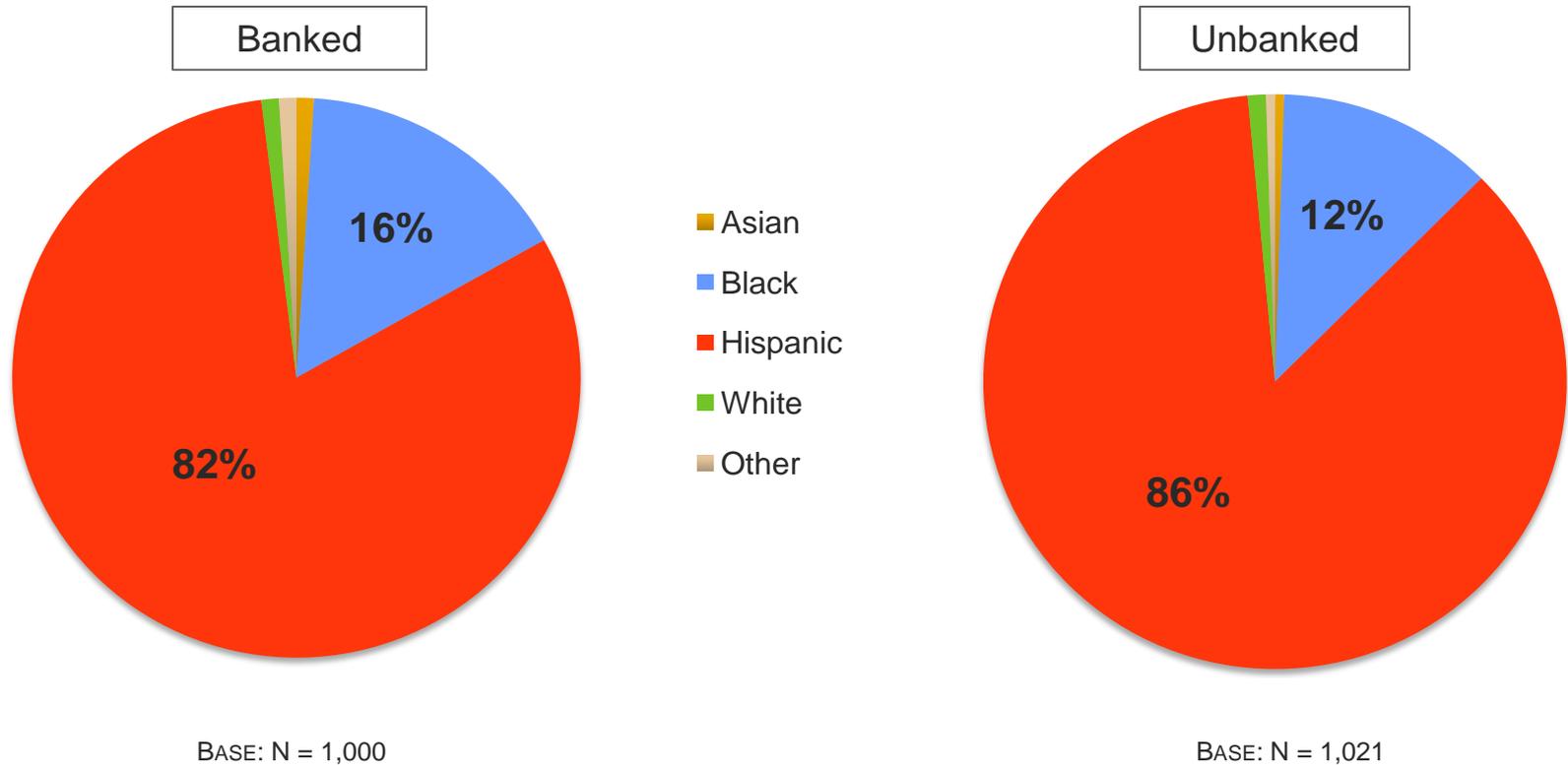
# Respondent Demographics



Mean Score, 7 pt. scale	Banked	Unbanked
Mean Age	41 years	34.5 years
Percent Foreign Born	65%	69%
Avg. Length of Time in the U.S.	21.2 years	14.4 years
Avg. Household Size Size	4.4 pp	4.7 pp
<b>Occupation</b>		
Non Tech / Non Professional	31%	31%
Homemaker	24%	34%
Unemployed	12%	13%
Technical	7%	4%
<b>Education</b>		
Less than high school / some HS	39%	51%
HS graduate	32%	33%
vocational / community college /some college	20%	14%
College graduate and higher	8%	1%
Mean Annual Household Income	\$29.4K	\$17.3K
Use The Internet? Yes	43%	30%
Voted in any U.S. election in the past? Yes	43%	20%

# Respondent Profile

- Among the banked population, 82% of the respondent base is Hispanic, 16% are African American. For the unbanked, 86% are Hispanic, 12% are African American.



S2. Which of the following best describes your ethnic background? Please select all that apply

# Household Expenditures

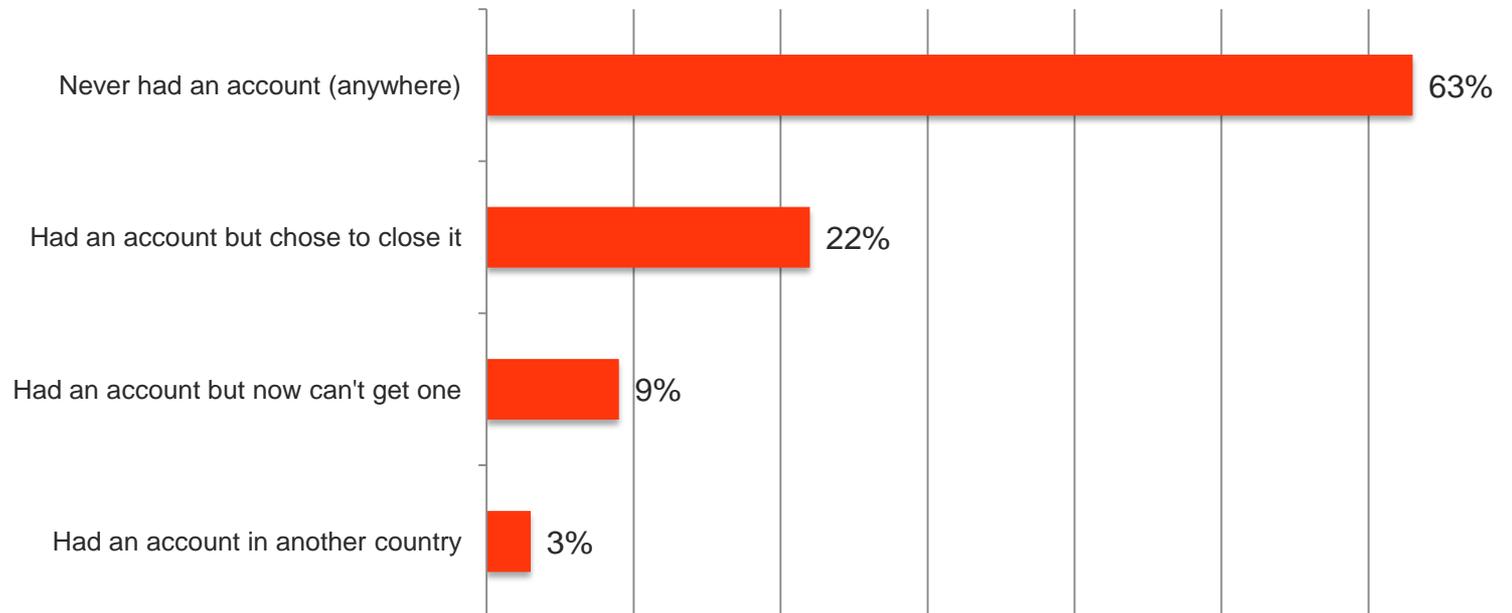
- Estimated household expenditures on five reasonably consistent services were asked, to establish a baseline of spending. Among the Banked, average monthly expenditures of \$1,712 were documented on five basic needs. Among the Unbanked, average monthly expenditures of \$1,329 were documented on the same five basic needs.

Estimated Monthly HH Expenses	Banked	Unbanked
Rent / mortgage	\$989	\$731
Utilities	\$207	\$138
Phone	\$100	\$64
TV	\$63	\$52
Groceries	\$354	\$344
<b>TOTAL</b>	<b>\$1,712</b>	<b>\$1,329</b>

IE19. Please estimate your monthly household expenses in the following categories  
 BASE: Total Banked respondents, N = 1,000, Total Unbanked respondents, N = 1,021

# Unbanked Segment Banking History

- Newcomers: Most Unbanked (63%) are a potentially untapped market, having never had a bank account before anywhere.
- Opting Out: Many Unbanked (22%) previously had an account, but voluntarily chose to close it and remain unbanked
- Kicked-Out: Some Unbanked (9%) previously had an account, but can't get one now
- International: Few (3%) were banked in another country, but remain Unbanked here.

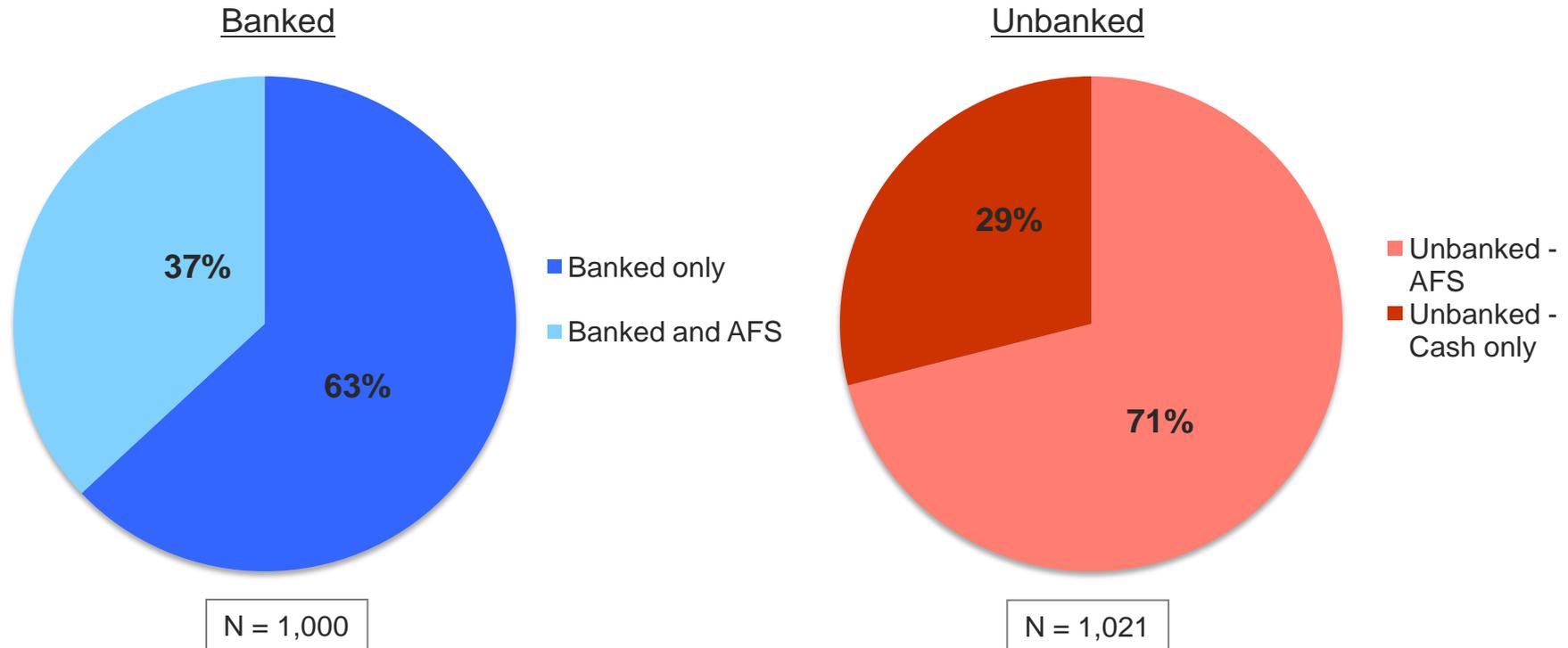


M1. You said you do not currently have any accounts at a bank or credit union. Which one of the following statements best describes you?

BASE: Total unbanked respondents, N = 1,021

# Segmentation of Research Panel

- The panel of 2,021 respondents was nearly evenly divided between Banked respondents (N = 1000) and Unbanked respondents (N = 1021).



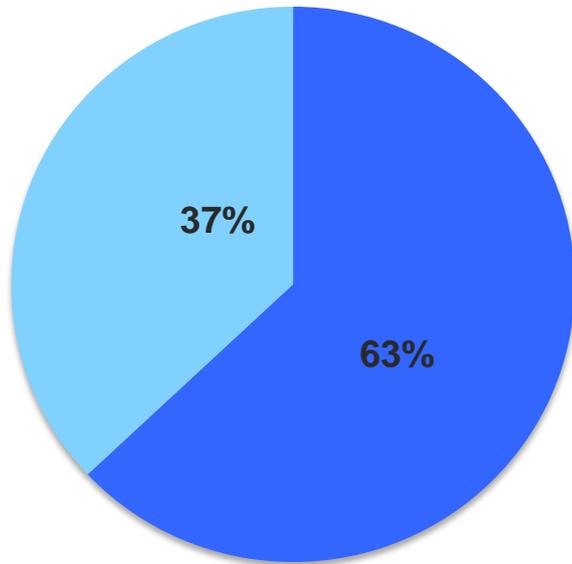
B1. When it comes to financial services, which of the following types of establishments do you use? Financial services can include depositing checks, cashing checks, managing your money in an account, borrowing money, sending money, paying bills, and others. Please select all that apply.

BASE: Total banked respondents, N = 1,000; Total unbanked respondents, N = 1,021

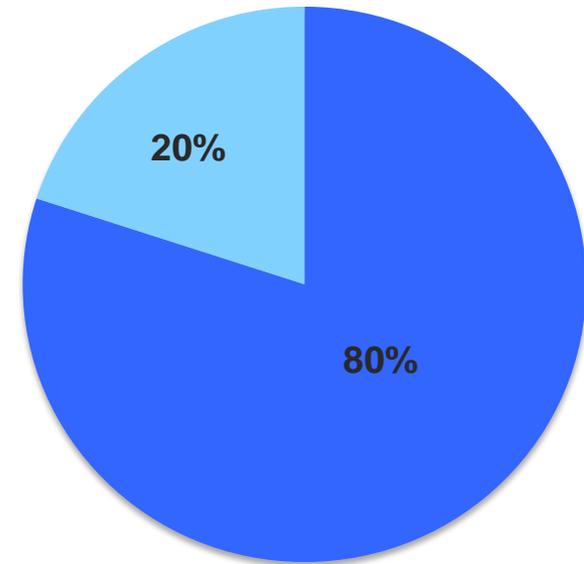
# Segmentation of Banked Population

- 63% of the Banked population exclusively use banks, while the remaining 37% use a combination of banks and alternative financial service (AFS) providers like check cashers, supermarkets, and liquor stores for financial services. Of these “underbanked” users, 78% use AFS providers at least once a month. In the FDIC study, the ratio of banked-underbanked is 80/20.

Pew Study (8 target neighborhoods)



FDIC Study (LA-Long Beach MSA)



■ Banked only  
 ■ Banked and AFS

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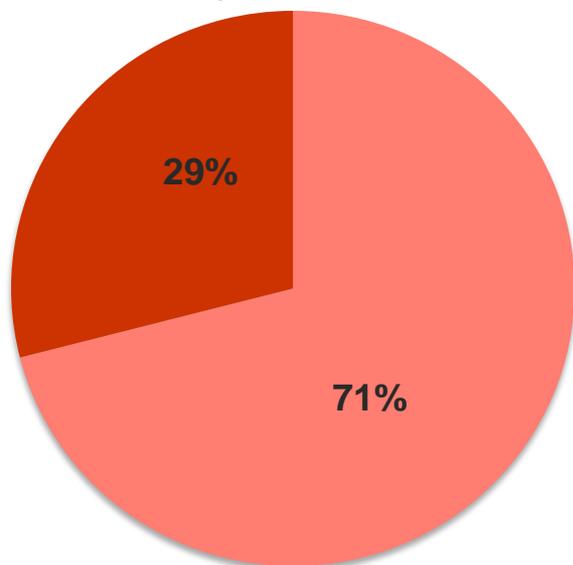
BASE: Total banked respondents, N = 1,000

# Segmentation of Unbanked Population – AFS Users vs. Cash

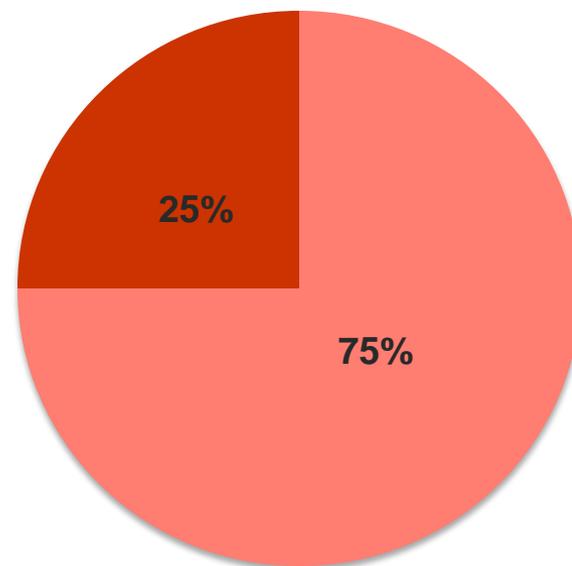


- 71% of the Unbanked population solely use AFS providers, while the remaining 29% use no AFS providers at all, choosing to transact exclusively in cash. For the FDIC study, one-quarter of the unbanked are cash-only users, while the remaining use AFS providers.

Pew Study (8 target neighborhoods)



FDIC Study (LA-Long Beach MSA)



■ Unbanked - AFS  
■ Unbanked - Cash only

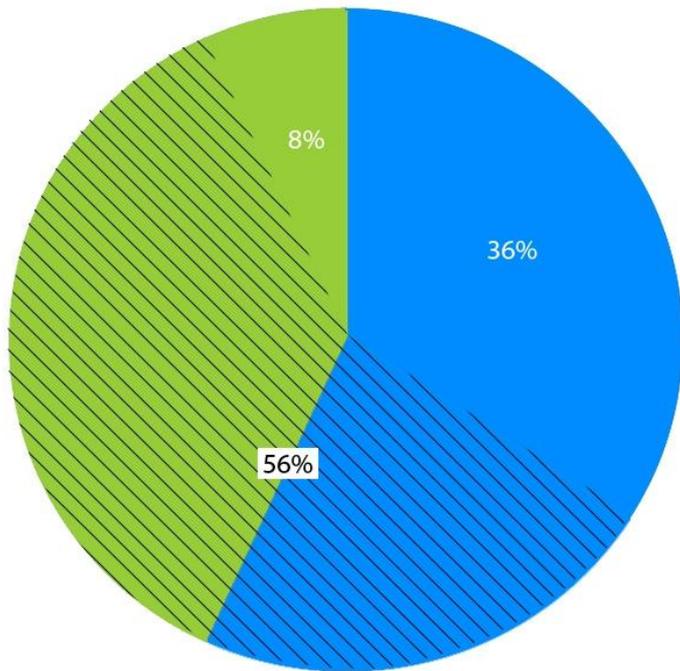
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BASE: Total unbanked respondents, N = 1,021

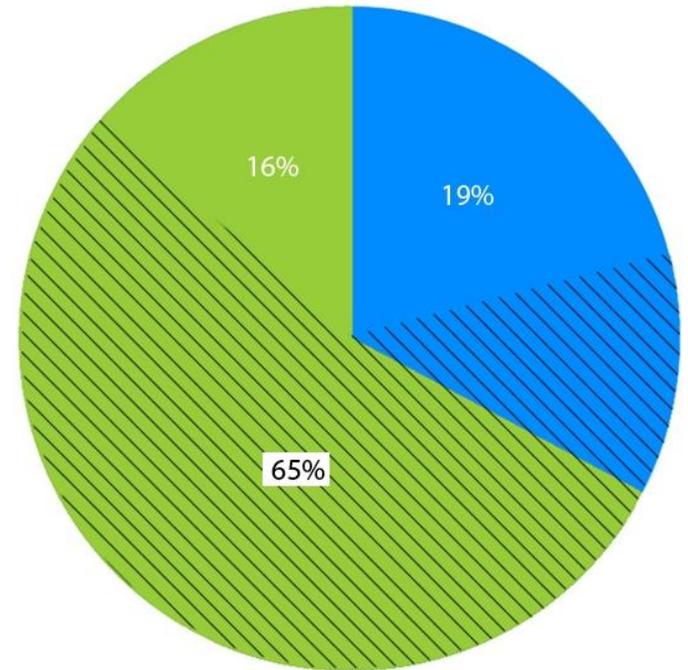
# High Usage of Alternative Financial Service Providers



## Boyle Heights



## South Figueroa Corridor



- Banked
- Unbanked
- AFS users

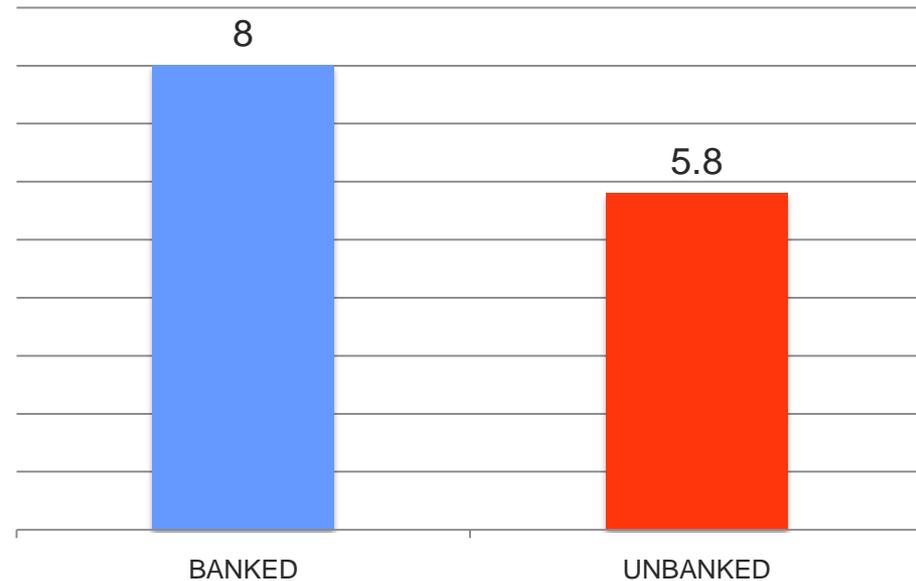
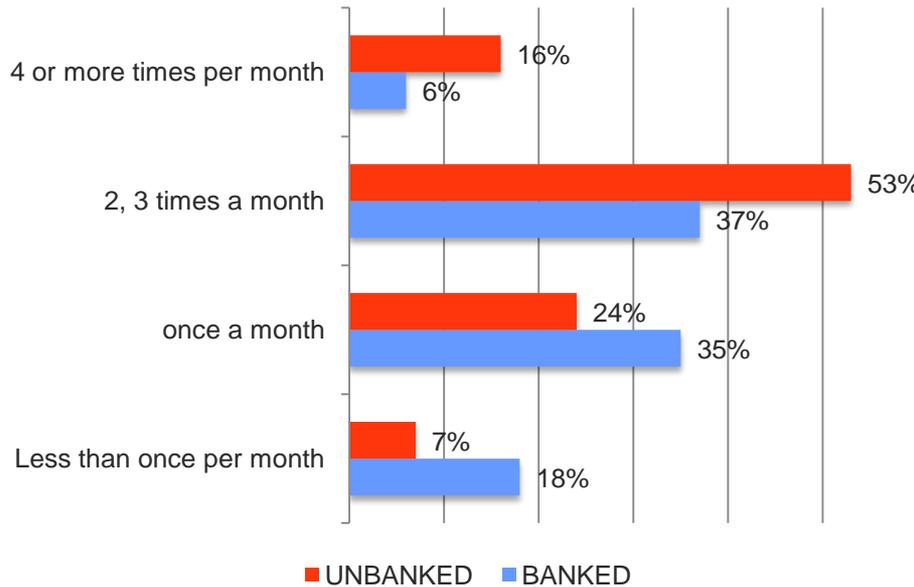
Total Boyle Heights households, N = 298

Total South Figueroa Corridor households, N = 177

December

# Check Cashing Usage

- 67% of the Banked use Check Cashing services, and of those 78% cash checks at least once a month. Speaks to a high level of individuals going outside the banking system for liquidity.
- 40% of the Unbanked use Check Cashing services, and of those 93% cash checks at least once a month.
- 13% of the Unbanked have used Check Cashing services for more than 10 years; 42% 5 years or more, 74% more than two years
- The average relationship with a check casher is higher for the Banked (avg. 8 years) than the Unbanked (avg. 5.9 years).

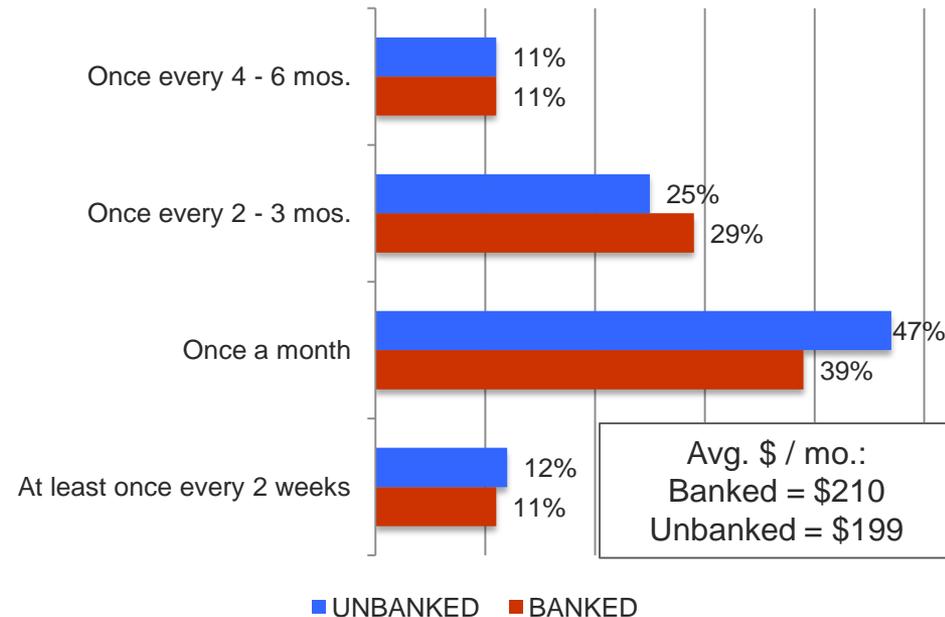
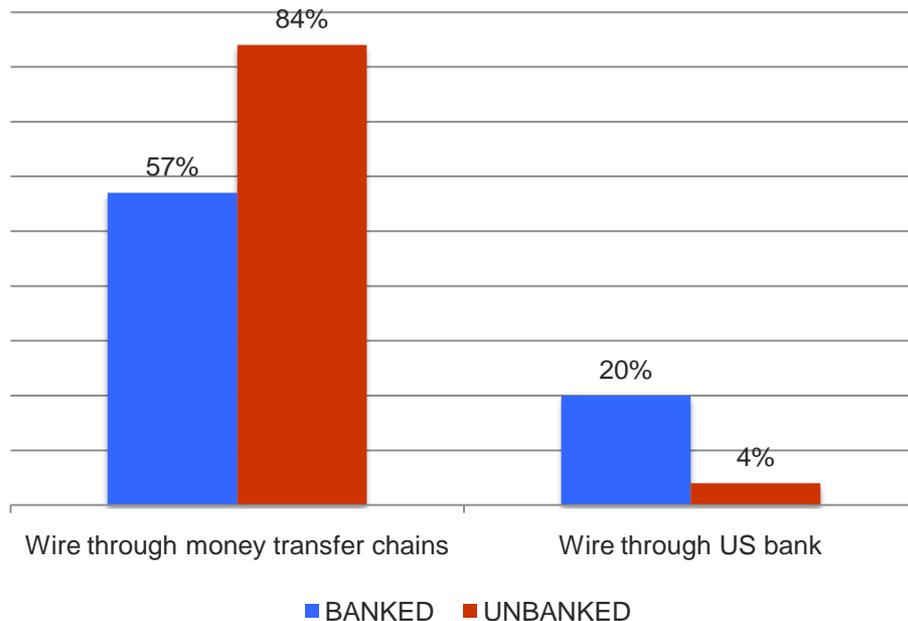


CC1. About how often do you use the services of a check cashing operation in a typical month? CC6. How long have you been using check cashing services in the U.S. in general?

BASE: Total Banked check cashing users, N = 150, Total Unbanked check cashing users, N = 413

# Remittance Usage

- Among Remitters, 57% of the Banked population still remit through an independent money transfer chain (20% remit through the bank). Half (50%) of Banked Remitters send money at least once a month, an average of \$210 each time.
- Logically, 84% of the Unbanked remit through an independent money transfer chain (4% remit at a bank though not a customer). 59% of Unbanked Remitters send money at least once a month, an average of \$199 each time



MR1. What is the most frequent method you use to send money to family or friends? MR2. About how often do you transfer money to family or friends? MR3a. Approximately how much money do you send to family or friends in a typical month?

BASE: Total Banked remittance respondents, N = 250, Total Unbanked remittance respondents, N = 333

**L.A. households spend a high percentage of their income on non-bank financial services even though those services are offered more cheaply at local banks.**



	Annual Checking Cost	Annual Remittance Cost <sup>1</sup>	Total Cost	Minimum Percentage of Unbanked Household's Annual Income <sup>2</sup>
AFS	\$700.00 <sup>†</sup>	\$119.88-\$179.88 <sup>‡</sup>	\$819.88-\$879.88	5.50%
Wells Fargo Value Checking	\$160.00 <sup>*</sup>	\$72.00 <sup>**</sup>	\$232.00	1.50%
Bank of America My Access	\$132.40 <sup>*</sup>	\$0.00 <sup>**</sup>	\$132.40	0.88%
Citibank Basic Checking	\$96.00 <sup>*</sup>	\$0.00 <sup>**</sup>	\$96.00	0.64%

<sup>1</sup> Based on median of one remittance per month; based on cost to Mexico

<sup>2</sup> Calculation based on yearly Unbanked income of \$15,000; among surveyed: BH: 49%, SFC: 66% have income <\$15,000

<sup>†</sup>'Converting Basic Financial Services Fees into Prosperity,' Pew Charitable Trusts, 2008

<sup>‡</sup>According to Western Union website

<sup>\*</sup>If waiver conditions are unmet (i.e. direct deposit, average daily balance requirements)

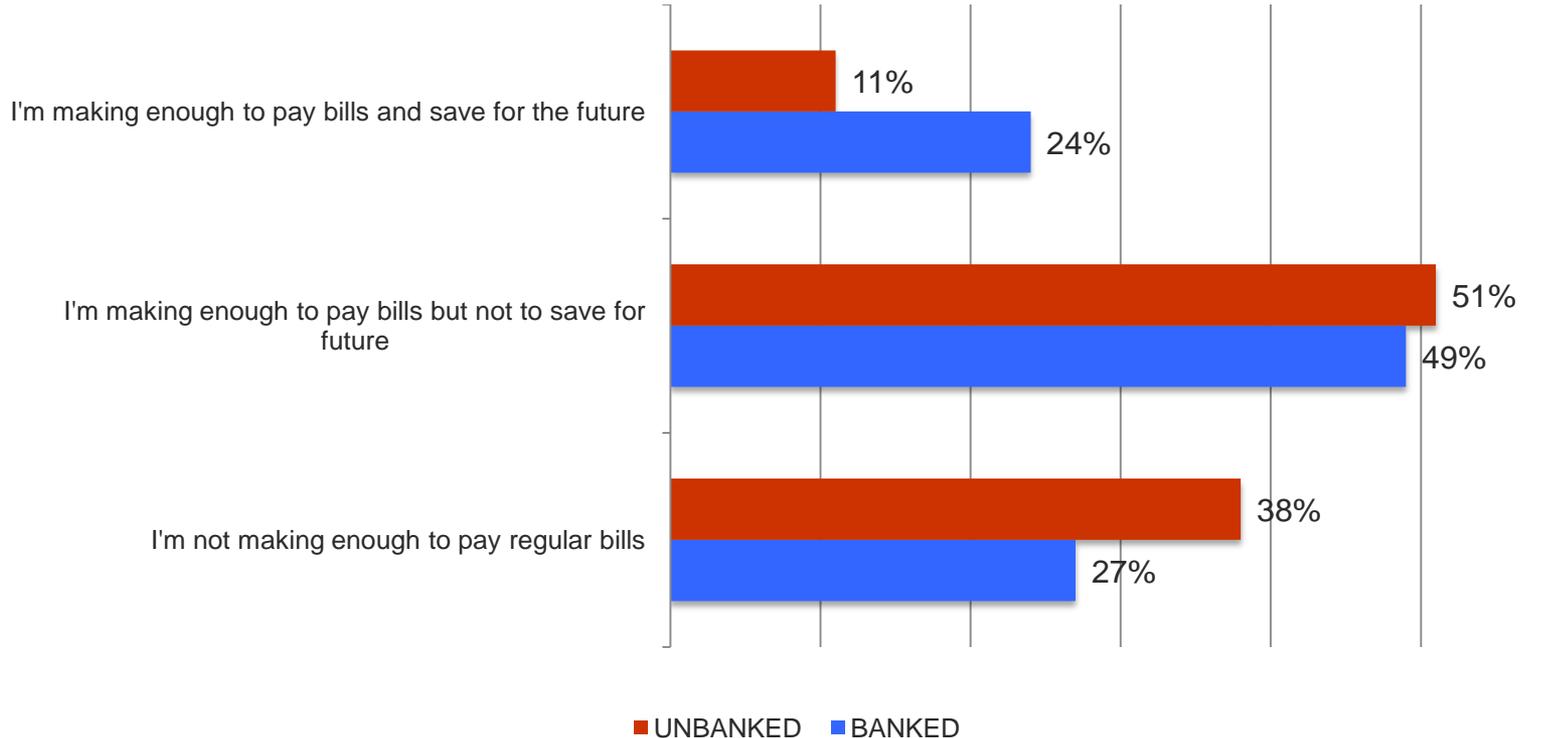
<sup>\*\*</sup>Max remittances per institution per month: WF: n/a, B of A: 3, Citi: 6

Costs available through each institution's website; All institutions within two miles of BH and SFC

# Perceptions of Personal Financial Health



- The Banked generally rate their financial health higher than the Unbanked. The Unbanked say they cannot make enough money to pay their bills at a higher rate than the Banked.
- More than twice as many Banked (24%) are earning enough to pay their bills AND save for the future than the Unbanked (11%). About half of all surveyed, Banked or Unbanked, are making enough to pay bills but not save.

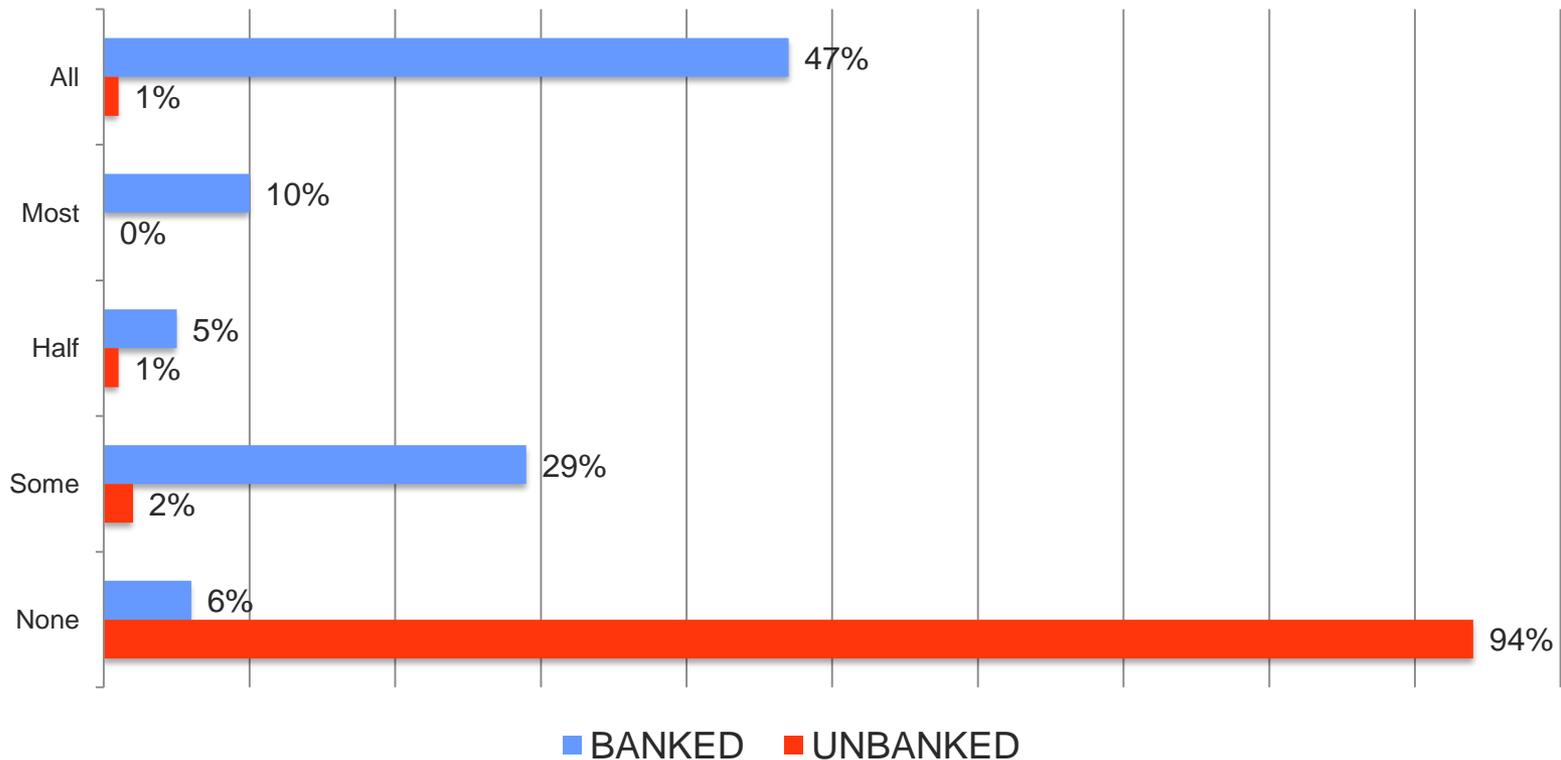


IE1. Which of the following best characterizes your financial situation?

BASE: Total Banked respondents, N = 1,000, Total Unbanked respondents, N = 1,021

# Safeguarding Money

- Among the Banked, 91% keep some of their savings in a bank. Nearly half (47%) keep all of their savings in a bank.
- Among the Unbanked, 94% keep none of their savings in a bank.



AL9. Which of the following best describes the share of your money you keep within banks or financial institutions?  
 BASE: Total Banked respondents, N = 1,000, Total Unbanked respondents, N = 1,021

**Boyle Heights Households who use bank services exclusively are more likely to save for the future than those who use AFS or cash only.**

	Keep All \$ in the Bank	Keep No \$ in the Bank	Make Enough to Pay Bills and Save for Future
Banked Only	62%	2%	28%
AFS Users	18%	65%	16%
Cash Only	0%	100%	4%

AL9. Which of the following best describes the share of your money you keep within banks or financial institutions?

IE1. Which of the following best characterizes your financial situation?

Boyle Heights: Banked Only: N= 103 (106) ; AFS Users: N= 165 (167) ; Cash Only: N= 25

# Customer Satisfaction: Banked vs. Unbanked



- Both the Banked and Unbanked express high satisfaction with their current financial service provider. The Banked do not express a higher level of satisfaction with their provider than the Unbanked.

7 pt. scale	Banked	Unbanked
% Top 2 Box	72%	69%
% Bottom 2 Box	4%	3%
Mean Score	6	5.9

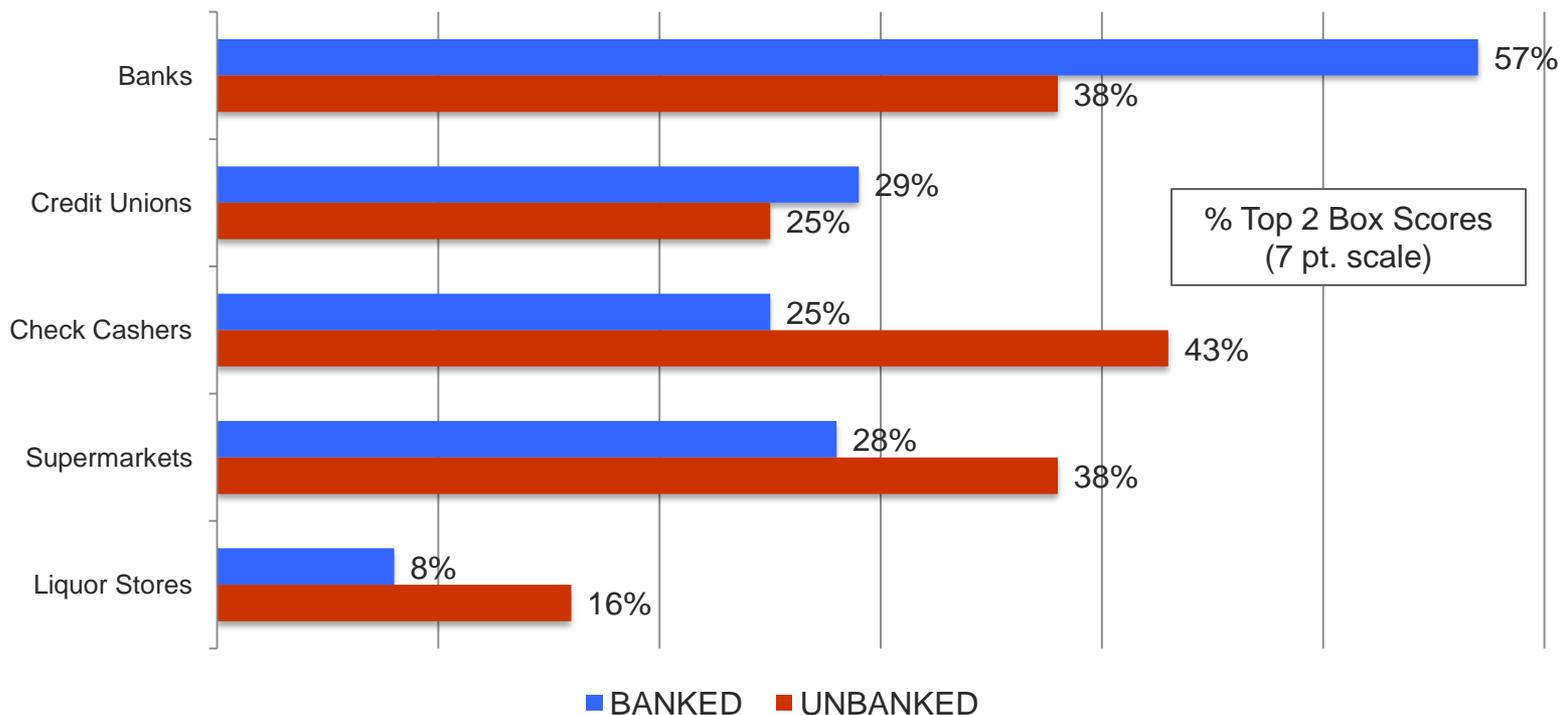
A5a. In general, how satisfied are you with the experience you receive at the [financial institution] you mainly use? Please rate your experience on a scale of 1 to 7—where 1 is “not satisfied at all” and 7 is “very satisfied”.

BASE: Total Banked respondents, N = 1,000, Total Unbanked AFS respondents, N = 721

# Trustworthiness of Financial Institutions



- Generally, the Banked trust banks at a high level (mean score 5.6 – 7pt scale). However, they do not trust credit unions, check cashers, supermarkets, or liquor stores.
- Generally, the Unbanked trust check cashers at a high level (mean score 4.8 – 7pt scale). They also trust banks and supermarkets, but to a lesser extent. However, they do not trust credit unions or liquor stores.

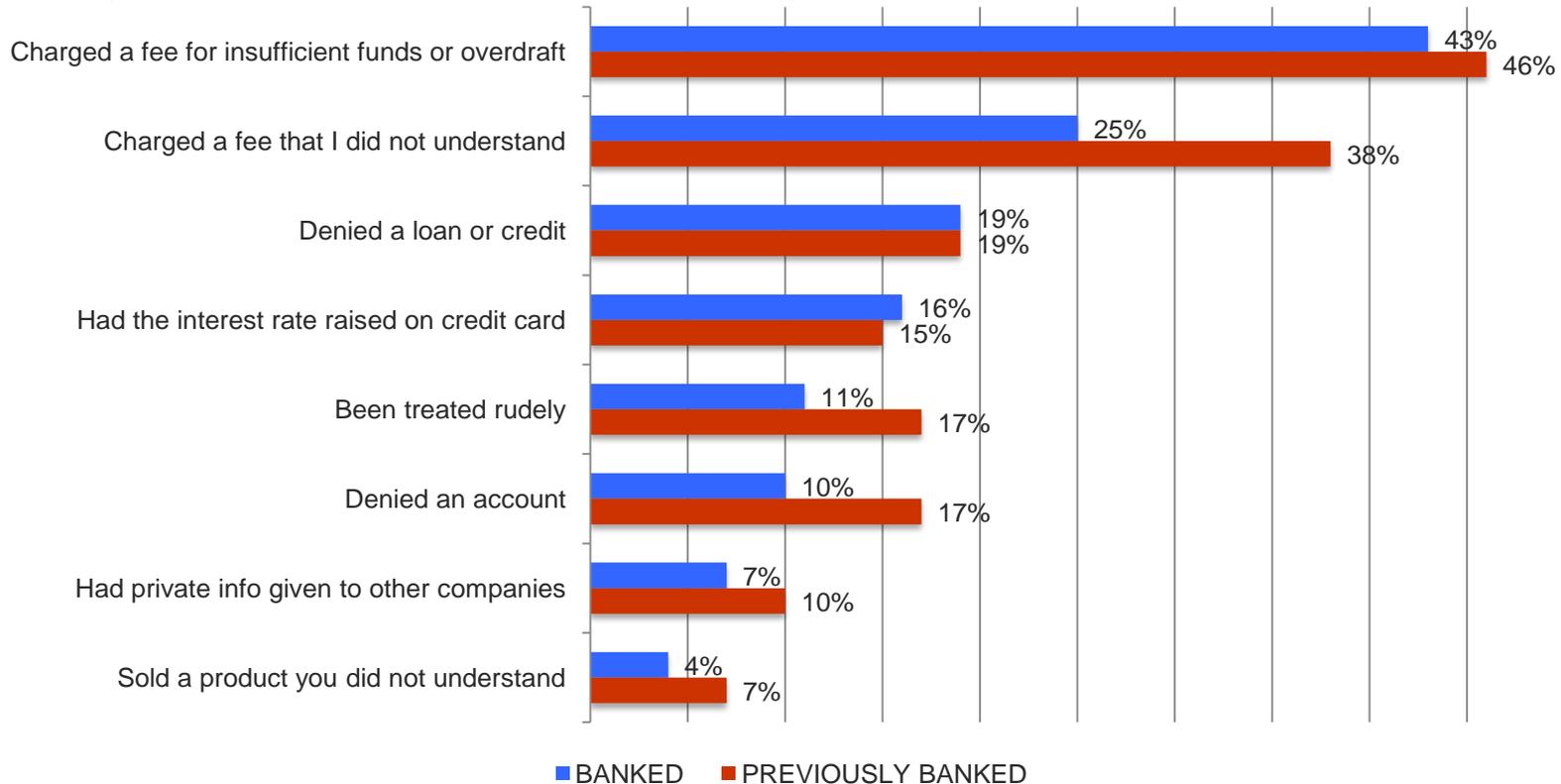


B4. On a scale of 1 to 7, where 1 is “not at all trustworthy” and 7 is “very trustworthy”, how much do you trust the following types of establishments when it comes to using them for financial services?

BASE: Total Banked respondents, N = 1,000, Total Unbanked respondents, N = 1,021

# Adverse Experiences At Bank

- Nearly half (43%) of all Banked have experienced an NSF/OD fee. One quarter (25%) have been charged a fee they did not understand. At least one in ten have been denied an account (10%), denied a loan or credit (19%), had the interest rate unexpectedly raised on their credit cards (16%), or been treated rudely (11%). All of these rates of adverse experiences are higher among the previously banked, who now are unbanked.

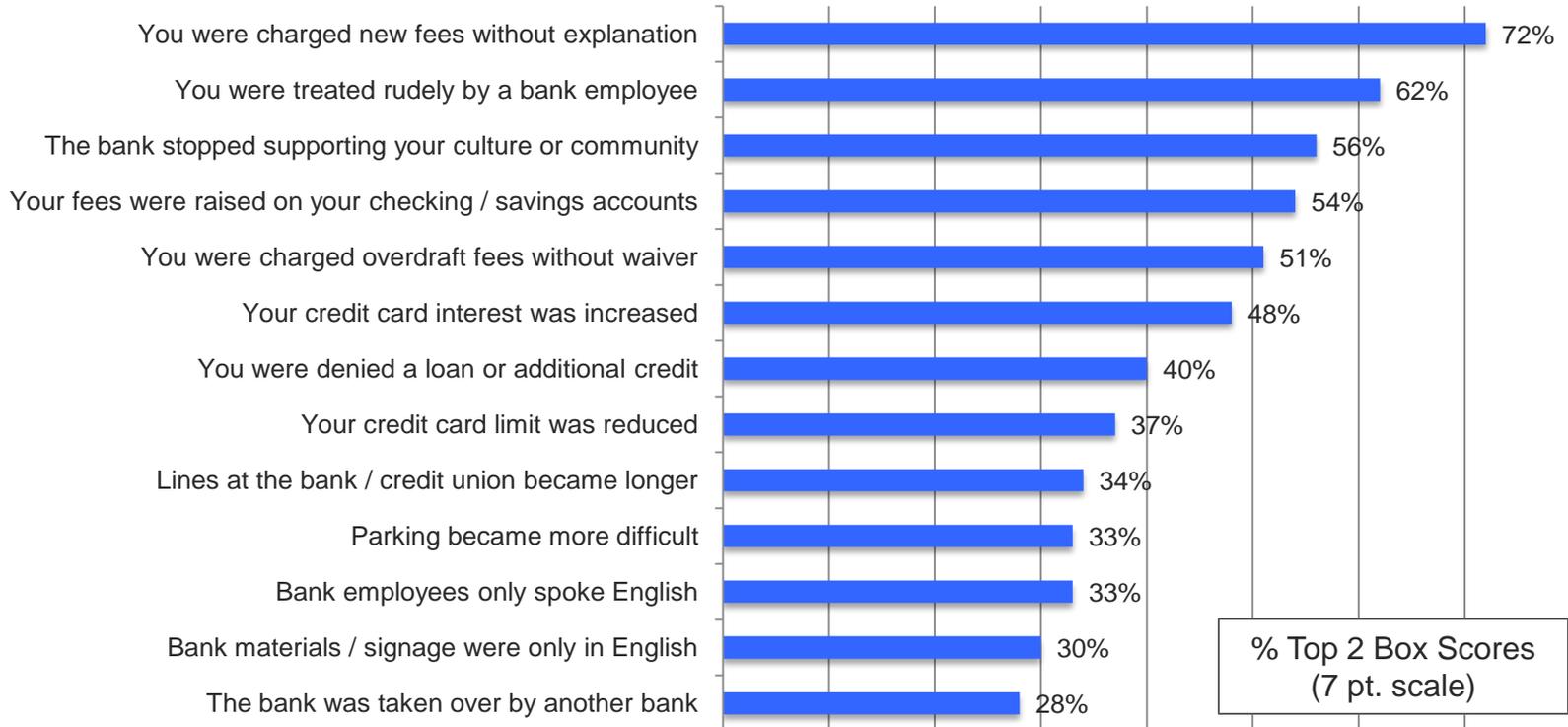


A7. Have you ever encountered any of the following challenges at a bank or credit union?

BASE: Total Banked respondents, N = 1,000, Total Unbanked/Previous Banked respondents, N = 313

# Reasons For Leaving A Bank

- Among the Banked, the strongest justification for leaving one’s current bank is “being charged new fees without explanation”. The second strongest justification for leaving one’s current bank is a bank “stopping to support one’s culture or community”. The weakest justification for leaving one’s current bank is “a bank being bought or taken over by another bank”



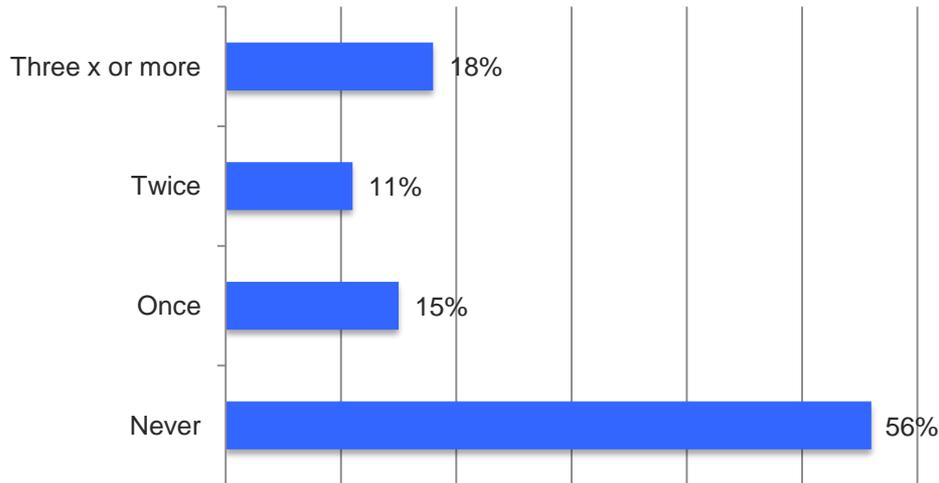
A8. On a scale from 1 – 7, where 1 is “very unlikely” and 7 is “very likely”, how likely would you be to leave your bank or credit union due to the following issues?

BASE: Total Banked respondents, N = 1,000

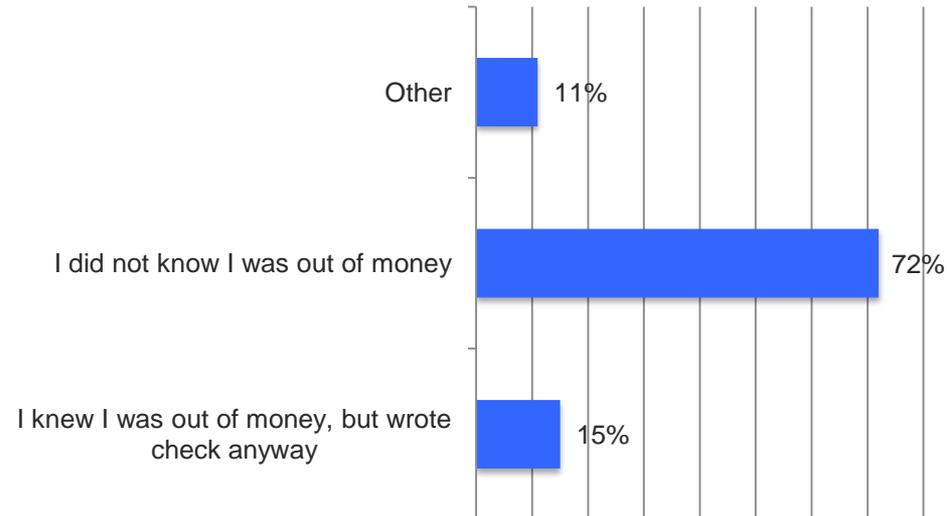
# Account Overdraws

- Among the Banked, 56% have never overdrawn their account. Of those who have overdrawn their account, 72% “did not know they were out of money”. Only 15% knew they were out of money, but wrote the check anyway..

C3.



C4.

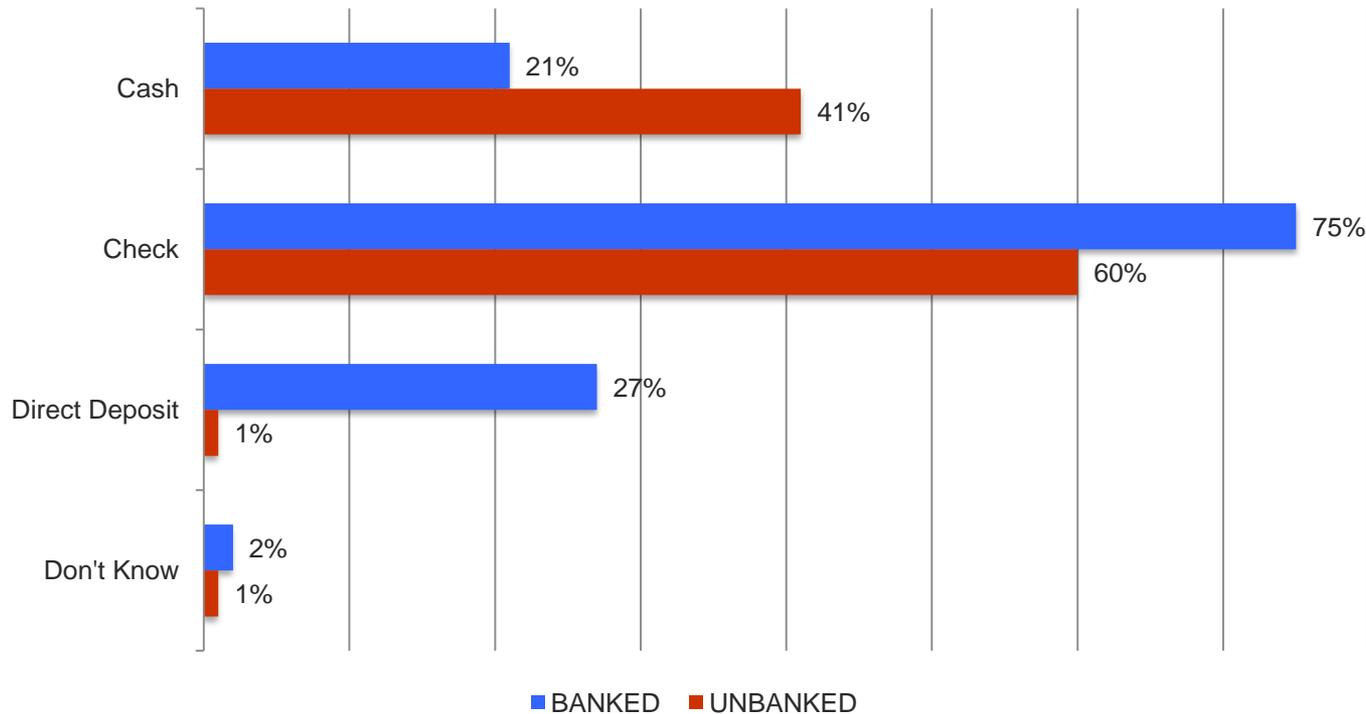


C3. In the past year, about how many times would you say you have written a check or withdrawn money from an account, but did not have sufficient funds to cover it? C4. Which one of the following best describes your reason for overdrawing your account in the past year?

BASE: Total Banked respondents and have checking account, N = 786 (C3), Respondents overdrawn, N = 342 (C4)

# Form of Household Income

- Among the Unbanked, 41% get paid in cash from their jobs (60% on their secondary job). If earners are paid in cash, 88% will keep money in the household and spend with no intent to save.

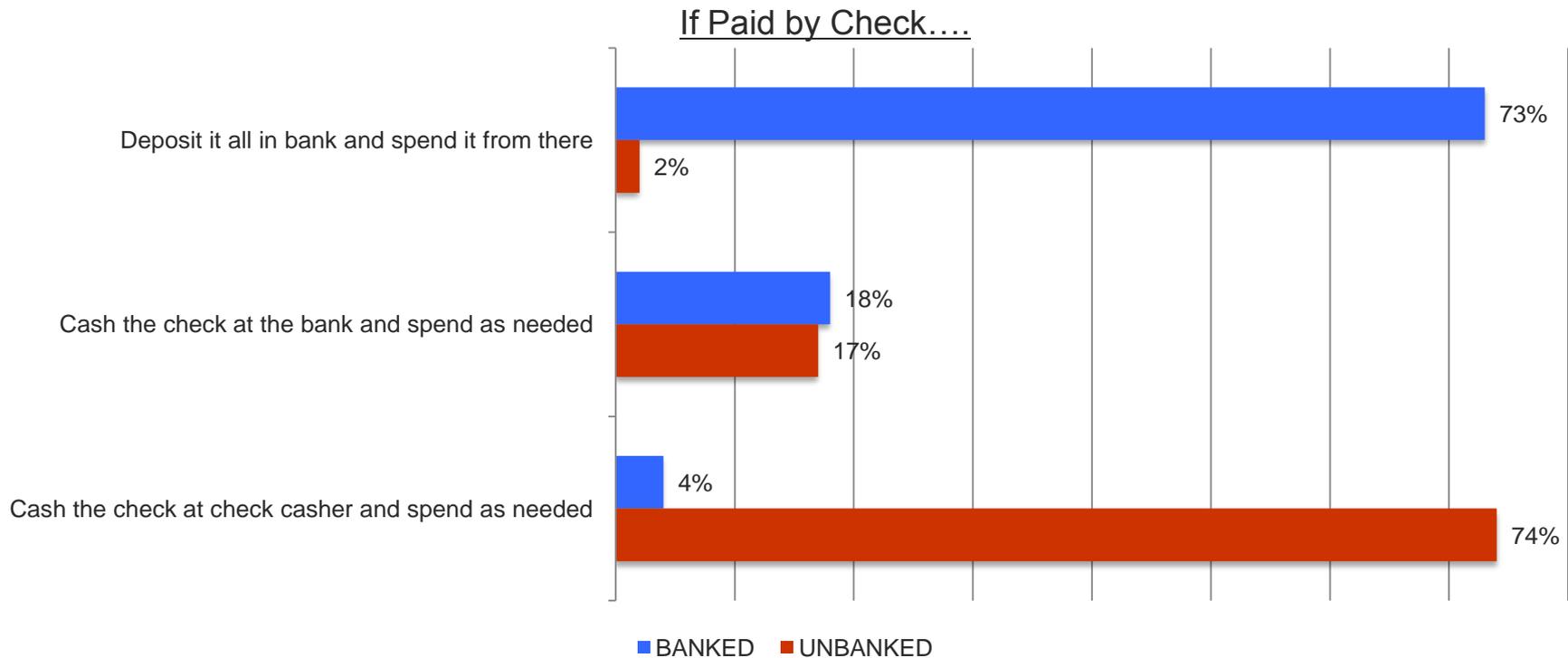


IE7. How are you paid in each job? Is it by cash, check or direct deposit to your bank? IE8. When you get paid in cash, what do you do with it? Do you...

BASE: Total Banked respondents, N = 1,000, Total Unbanked respondents, N = 1,021

# Form of Household Income: Check

- Among the Banked, 75% are paid by check. If earners are paid by check, 73% deposit the check into a bank account and spend from there. Even if paid in cash, 27% deposit their earnings into their account. If paid by check, 18% simply cash the check at a bank and keep the money. A few (4%) take it to a check casher.

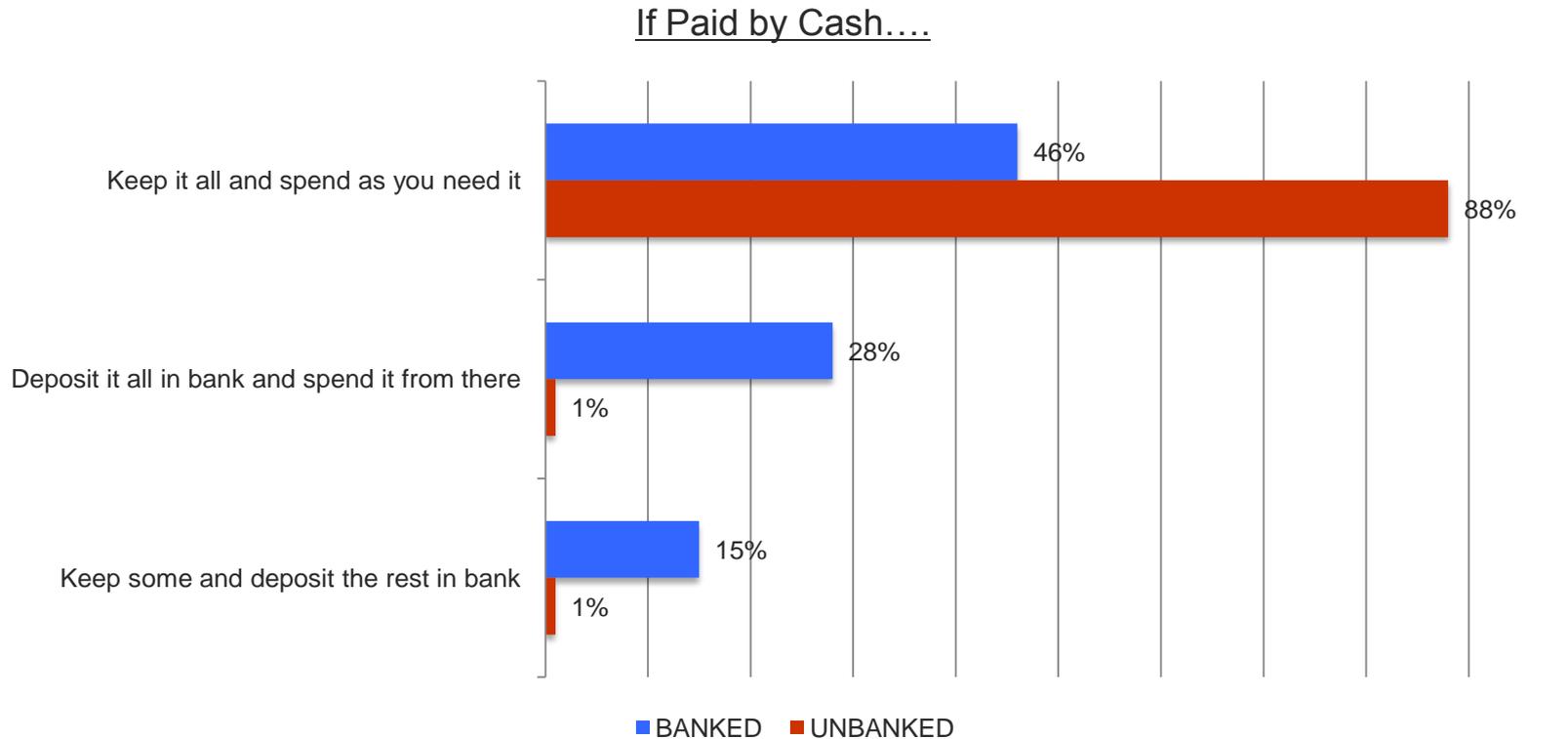


IE9. When you get paid by check, what do you do with it? Do you...

BASE: Total Banked respondents, N = 1,000, Total Unbanked respondents, N = 1,021

# Form of Household Income: Cash

- Among the Unbanked, 41% get paid in cash from their jobs (60% on their secondary job). If earners are paid in cash, 88% will keep money in the household and spend with no intent to save.



IE8. When you get paid in cash, what do you do with it? Do you...

BASE: Total Banked respondents, N = 1,000, Total Unbanked respondents, N = 1,021

# Credit Aspirations

- Regardless of status, persons were interested in obtaining credit for classic reasons, overwhelmingly to afford a home or education. Among the Unbanked, the need for credit to purchase autos is also strong.

	Banked	Unbanked
Home	48%	48%
Auto	15%	20%
Education	24%	25%
Household Expenses	20%	18%
Medical Expenses	14%	12%
Business Investment	12%	14%
Retirement	14%	10%
Travel	13%	9%
Other	3%	2%

CR1. Assuming that credit is available to you, which of the following items would you use it for? Would you...?

BASE: Total respondents, N = 2,000