The Unbanked Problem in Los Angeles

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1. Introduction

For the past ten years, there has been an increasing interest in studying the financial activities of the **Low-to-Moderate-Income (LMI)** population, particularly whether or not they utilize conventional banking services such as checking and savings accounts. Such studies have shown that many of the LMI households are unbanked or underbanked and that the majority of the LMI rely on costly non-banking alternatives. The reliance upon the **Alternative Financial Sector (AFS)** has kept many families from saving their hard earned money and building credit.[1] Since checking and savings accounts encourage money management and are the necessary link to building credit, interest is growing to bank the unbanked in the Los Angeles as part of a larger economic development strategy. This paper attempts to identify the unbanked in Los Angeles, examines the barriers to banking- both from the perspective of the unbanked and the banks, and proposes potential polices and recommendations that will help the unbanked enter the financial mainstream.

If opening a checking and savings account will help the low-to moderate income population increase their assets, then how can government, nonprofit organizations, and financial institutions help the unbanked in Los Angeles enter the financial mainstream? What types of policies and programs will convince the unbanked to take a chance and switch from their present financial services to mainstream bank accounts?

Helping the unbanked move from the AFS into the financial mainstream requires partnership between government, private financial institutions, and nonprofits. Government in this paper will mainly refer to local government, as in Los Angeles City. Nonprofits include large philanthropic organizations to small grass roots organizations that interact daily with the unbanked. At the heart of the partnership is the group that is being served, the unbanked population. Financial institutions include banks and members of the AFS.

[1] Caskey (1994) was one of the first works that examined the types of credit options available to the LMI population.

Conventional banks are vital to providing banking services, funding, and financial education for the unbanked.[2]

2. The unbanked in Los Angeles

The term "unbanked" refers to an individual who lacks a basic checking and/or savings account[3]. Another term, the "underbanked" refers to a person who may have a checking account and or savings account, but nonetheless uses alternative financial services as their primary means for financial transactions[4,5]. Many of the unbanked and underbanked rely on the AFS for financial transactions. AFS includes check cashers, check cashing stations at supermarkets, and payday lenders. Check cashers allow a person to cash checks and make wire transfers for a specific fee. In addition, check cashers include other services such as providing money orders and bill payment. Other check cashing outlets include supermarkets, where a person can cash a check without a fee, as long as the person purchases items from the supermarket. Payday lenders offer short-term loans for a person seeking advances on their paycheck. Payday lenders are different from check cashers in that a person must have a checking account.

Another element of the AFS is the prepaid credit cards which feature the major credit card logos such as VISA, MasterCard, and American Express. A prepaid credit card is an account upon which a person deposits funds for a fee. Every time a person deposits funds into the account, they could be charged anywhere from $5 to $10 per deposit.

Several research papers have studied the characteristics of the unbanked population and reasons why they are unbanked. However, literature specific to the Los Angeles region is limited. Two studies, *A Survey of Financial Activities and Attitudes*, sponsored by the **Office of Comptroller of the Currency (OCC)** in 1998[6], and the MetroEdge[7] study, sponsored by Shorebank in 2003, offer the best information on hand regarding the unbanked and underbanked in the Los Angeles region.[8]

Identifying the general characteristics of the unbanked can help policy makers, outreach organizations, and banks to create and provide better banking services to the unbanked. Yet the unbanked tend to be a diverse group, so identifying their general characteristics is difficult. *A Survey of Financial Activities and Attitudes*, sponsored by the OCC, and the MetroEdge survey reveal that the most salient characteristics of the unbanked are that they tend to be very low-income and have less education. The MetroEdge and OCC studies were

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[2] The AFS is not generally viewed as a likely partner in helping the unbanked, however it clearly has a stake in the unbanked community because it stands to profit greatly from this segment of the population.
[3] Assembly Bill 1502
[4] Berry (2004)
[5] "Checking account" is an account, which allows the holder to write checks or use a debit card against deposited funds (see http://www.investorwords.com/846/checking_account.html). A checking account is a service that facilitates the transaction of money between people. A savings account is a deposit account at a bank or savings and loan which pays interest, but cannot be withdrawn by check writing or a debit card (see http://www.investorwords.com/4388/savings_account.html).
[6] An analysis of this data appears in Dunham (2001).
[7] The MetroEdge study was initially analyzed by Christopher Berry in 2004, and further analysis of the data were conducted by CSFI in July 2005 and September 2005 (Jennifer Tescher)
[8] Data from both studies as well as a map from *A Report on Check Cashing Establishments in Los Angeles,* (VEDC, December 2005), were also used to locate the unbanked in Los Angeles. In addition to the literature review, interviews of officials from nonprofit organizations, local government, and financial institutions were conducted. The interviews provided insights on the differing interests of each organization and were valuable in understanding the many layers involved in helping the unbanked open a checking and savings account.

conducted with the goal of better understanding the financial activities and needs of the unbanked and to find out to what extent the unbanked freely chose to remain unbanked. The OCC interviews were conducted from September 1998 to March 1999 of 2,006 individuals over the age of 18. OCC designed a multistage stratified random sample in census tract areas with household incomes of less than 80% of the median of New York City and Los Angeles County[9]. The MetroEdge survey design, conducted from August to December of 2003, was loosely modeled after the OCC survey. The MetroEdge study surveyed 1,532 households in census tracts having incomes of less than 80% of the median of each area, Washington D.C., Los Angeles, and Chicago[10]. Even though there is a considerable variation between the two surveys, both revealed that the very low-income households had a disproportionately high share in the unbanked. In the OCC study, 68% of all households making less than $15,000 per year were unbanked[11]. Conversely, in the MetroEdge survey, 42% of the total households making less than $14,999 per year were unbanked[12]. Moreover, the more income a person had, the less likely they were to be unbanked. For example, in the Metro Edge study, only 4% of households making more than $35,000 were unbanked. Conversely, in the OCC sample, only 12% of households with incomes higher than $45,000 were unbanked[13]. The unbanked in both studies also tended to have less education than their banked counterparts. In the MetroEdge survey, 74.9% of the unbanked had high school as their highest level of education; people with more education were more likely to be banked. Although the OCC study did not offer the varying levels of education that the MetroEdge study provided, the majority, 56% of the unbanked households had less than a high school education in the OCC sample. Yet, within the banked group, only 26% of individuals had less than a high school degree.[14]

Other characteristics of the unbanked in the OCC and MetroEdge surveys were even more disparate than education and income levels. For example, the OCC found that 57% of the unbanked were unemployed and about 59% were immigrants. In contrast, the MetroEdge study found that only 8.7% of the unbanked were unemployed (54.2% of the unbanked had multiple employers) and only 33.7% were immigrants[15]. The differences between the two surveys can be due to a variety of reasons. For example, although Los Angeles, Chicago, Washington D.C., and New York are all metropolitan cities, they nonetheless have different demographics. Moreover, studies were conducted more than 4 years apart and had survey samples from two different sets of cities. Los Angeles was the only city that both studies surveyed.

While understanding the characteristics of the unbanked is crucial in designing programs to bank the unbanked, with certain exceptions, the available data is not conclusive enough to define a solid target market in any practical manner. For example, a cursory review of data in Table 1 reveals that while the unbanked population tends to be less educated with immigrant

[9] In 1997, the median household income in New York City was $33,000 and the median household income in Los Angeles was $35,000. OCC report, pg. 34

[10] Berry (2004), pg. 2

[11] Ibid., Pg. 34

[12] Berry (2004), pg. 20, and Dunham (2001), pg. 52

[13] OCC pg. 34

[14] It should be noted that most of the data in the two studies are not directly comparable. The Metro Edge study reports percentages within each sub-sample of banked and unbanked, while the OCC report includes some percentages within sub-samples while others are reported for the combined sample (total of banked and unbanked). We manipulated data based on reported numbers in samples and total banked/unbanked percentages in both reports.

[15] 66.3% of the unbanked were native born.

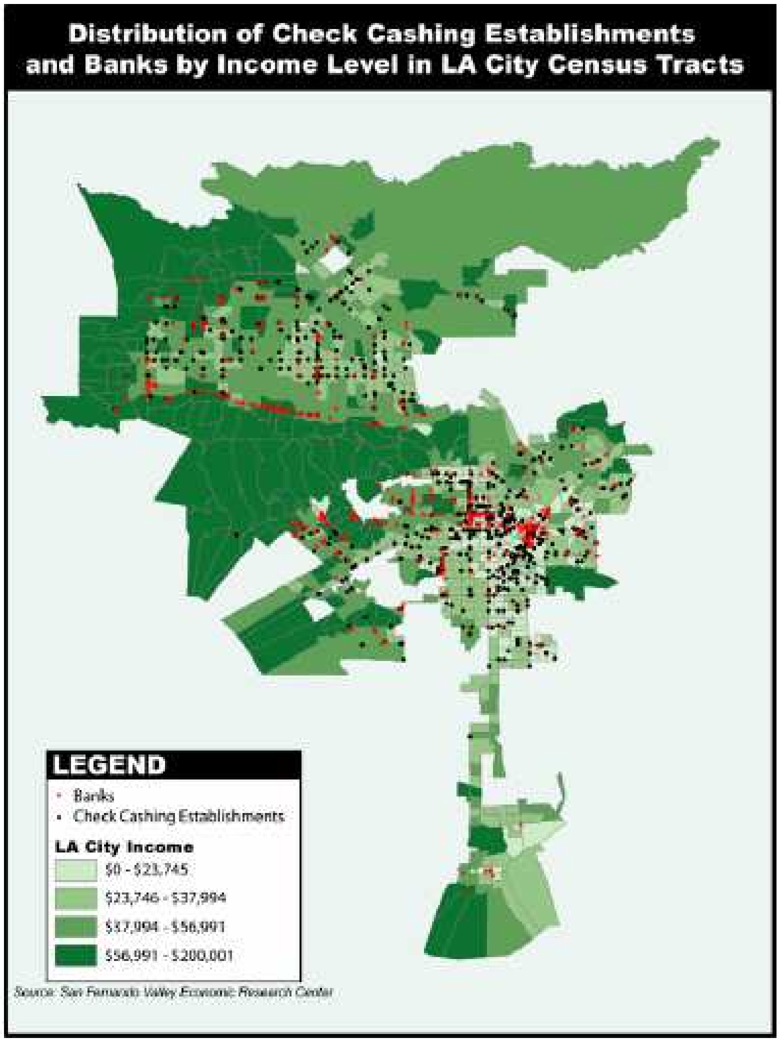
background, designing outreach campaigns to promote banking to these target groups may not produce a markedly different result than, for example, a more general outreach campaign. This is because percentages reported for these two categories simply explain higher incidence of these characteristics within the unbanked population and not across both the unbanked and banked samples. In other words, while it is plausible to assume that if you are unbanked it is highly probable that your education level will be less than a high school diploma, overall it is not clear that the percentage of unbanked people who have less than a high school diploma is significantly higher than people with somewhat higher levels of education. In a similar fashion, a considerable portion of unbanked people are immigrants, however, designing programs to mostly target immigrants might not be particularly effective since a majority of the immigrants are already banked. In light of this, it appears that using the demographic information needs to be combined with a geographic approach to yield better results. In other words, locating the regions where the unbanked lives is of crucial importance for successful implementation of outreach programs and policies aimed at helping the unbanked make the move to conventional banking.

Table 1- Summary results of OCC and MetroEdge surveys.

Characteristic	OCC	MetroEdge
Sample Size	2006	1532
Date	1998-99	2003
Percentage of all households making less than $15,000 per year who were unbanked	68%	42%
Percentage of higher income families within the unbanked sample	12% (incomes more than $45k)	4% (incomes more than $35k)
High school education or less <u>within the unbanked sample</u>	56%	74%
Percentage of unemployed individuals <u>within the unbanked sample</u>	57%	8.7%
Percentage of Immigrants <u>within the unbanked sample</u>	59%	33.7%
Percentage of people with bank accounts cashing income checks at check-cashing outlets	28%	14.3%
Percentage of people with bank accounts buying money orders from check-cashing outlets during a 12-month period	51%	45.6%

But locating the unbanked is difficult in Los Angeles because of the differing pockets of population density and vastness of the region. However, data provided by Barragan and Rodriguez (VEDC, 2005) offers some hints as to where the unbanked and underbanked live and conduct financial transactions. The VEDC map is useful because it maps three features: check cashing outlets, banks, and income distribution in the Los Angeles region[16].

[16] Barragan and Vazquez (2005), pg. 7



[17]

The red dots in this map represent banks while the black dots represent check cashing establishments. The map reveals that there is more check cashing outlets than banks in low-income census tracts. The survey data from both studies provide additional insights in this regard. About 58.8% of the unbanked in the MetroEdge sample cashed their income checks at check-cashing outlets. While 84.9% of the banked MetroEdge sample cashed their income checks at a bank, 14.3% of the banked nonetheless cashed their checks at a check cashing outlet. Furthermore, 71.5% of the unbanked and nearly half of the banked (45.6%) indicated that they had purchased a money order within the last 12 months. Of those surveyed, more than half of the unbanked and about one third of the banked, purchased money orders at check cashing outlets.[18] The popularity of using check cashing outlets amongst both the unbanked and banked is also evident in the OCC survey. About 71% of the unbanked OCC group cashed their income checks at check cashing outlets and 67% also

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[17] Ibid – Reprinted with permission

[18] Remaining are: 1.3 % from workplace, 8.9% at Western union, and 9.1% from Liquor store pg. 28 MetroEdge.

purchased money orders from check cashing outlets. 28% of the banked OCC group cashed their income checks at a check cashing outlet, and 51% of the banked purchased money orders from check cashing outlets. Although people may conduct financial transactions in different locations to where they live, the data provided by the OCC and MetroEdge studies support the idea that a least the majority of the unbanked and underbanked conduct their financial transactions within the same areas as the check cashing outlets. Furthermore, since the concentration of check cashing outlets correspond with the concentration of poor households in Los Angeles, then perhaps the unbanked and underbanked also live in the vicinity of check cashing outlets. This information could be used to identify pockets of unbanked population in the city where targeted outreach campaigns using the demographic characteristics of the unbanked could be most effective.

3. Understanding the decision to remain unbanked

The reasons why people choose to remain unbanked are numerous and complex. Yet without understanding them it would be impossible to overcome barriers to being banked. This is evident from the data reported in both the OCC and MetroEdge surveys as both reveal the existence and prominence of the *underbanked* population. It is therefore important to note that if a sizeable portion of the banked population still utilizes check cashing outlets then programs aimed at banking the unbanked need to address the root causes of the problem; otherwise, they may merely reduce the number of unbanked while increasing the ranks of the underbanked.

In explaining the factors and barriers that influence the decision to remain unbanked, many authors acknowledge that such decisions might be an outcome of a quasi-rational process. While on the one hand there are clear costs to being banked (or equivalently, benefits to remain unbanked), it appears that such costs can only partially explain the entrenched preference of the unbanked to use the AFS. In this respect, understanding the behavioral nuances, psychological shortfalls, and other barriers are equally important in addressing the problem of financial divide in our communities. So, the actual behavior of an unbanked individual may at the same time reflect elements of rational calculation combined with behavioral anomalies that are dictated by psychological and environmental factors.

Two studies seem to provide complementing insights into the rational and behavioral aspects of LMI's decision to remain. Adopting a rational cost-benefit approach, Barr (2004), listed the costs of being banked vs. costs of remaining unbanked. Focusing on behavioral aspects of decisions by LMI, Bertrand, Mullainathan, and Shafir (2006), on the other hand, provided an excellent review of the forces that may amplify the incidence of low participation in the financial mainstream. Specifically, they emphasized the role of (1) construal – mental representation of actual states of the world, (2) situation – behavioral barriers related to environment, (3) Channel factors – directing behavior through certain carriers, and (4) cognitive principles – behavioral nuances related to how individuals categorize and compartmentalize information, in shaping decisions of the poor. These behavioral aspects are important to consider because as Bertrand et.al. (2006) point out, "even in the context of big problems [such as lack of participation in the financial mainstream] small factors may sometimes play a decisive role".[19]

3-1. Remaining Unbanked as a Rational Choice

Using a bank product could be costly. Besides, the AFS is innovative and offers the unbanked and underbanked new products that allow them to conduct financial transactions without a checking or savings account. Considering the fact that benefits to being banked increase incrementally with the level of financial involvement and amount of transactions, the costs of being banked coupled with the innovativeness of AFS in offering more convenient products clearly makes it not advantageous for at least some of the unbanked to get banked.

Table 2 summarizes the costs of being banked compared to the costs of remaining unbanked from both the rational and behavioral perspectives. According to the MetroEdge survey, lack of sufficient income and costs related to maintaining a bank account was the main barrier faced by the unbanked. About 46.9% of the unbanked did not have a checking account because of income and costs related to maintaining a checking account. For example, the overdraft fees associated with checking accounts are costly, especially if one is already in a low-income bracket. Paying an average of $20 per bounced check or overdraft charge may represent a large percentage of an LMI's income.[20] Moreover, overdraft charges may add up simply because banks process checks that arrive in the same day from the largest to the smallest amount.[21]

In this respect, liquidity issues can also play a major role in dissuading individuals from using the mainstream financial system. It is commonly understood that using a checking account, for example, would require a certain amount of dollars to remain on account at all times to smooth out the transactions process. This increases demand for liquidity and creates additional costs for the account holder. It also increases costs of managing financial transactions using a bank account in the presence of liquidity issues. These are categories of costs that are less tangible than bank fees, yet could be very costly to the low income individual. Moreover, banks usually place holds on checks upon deposit, thereby creating a major barrier for individuals to access cash immediately. The cost of this "holding period" could be considerable, especially for individuals who need to make payments on deadlines.

Another major barrier to being banked is what Berry (2004), refers to as hard barriers. In the MetroEdge survey almost 15% of the unbanked respondents cited credit issues, required documents, etc. as reasons why they were unbanked.

Finally, another cost of using bank accounts relates to the issue of convenience. Some studies tend to emphasize that inconvenient location and business hours could be a major barrier for getting a bank account. However, the MetroEdge survey tends to not support this hypothesis as only about 2% of the unbanked respondents named convenience as a major factor.

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19 Ibid. p-11, comments in the bracket belongs to the authors.
20 Mohl (2007).
21 See for example, see http://marketplace.publicradio.org/shows/2006/11/20/PM200611207.html?refid=0

It should be emphasized that, in terms of convenience, credit card companies have provided the unbanked easier ways to make purchases with prepaid credit cards. Prepaid cards such as VISA and MasterCard are accepted at many stores and online shops. Such cards do not require a person to have a bank account. Purchasing a prepaid credit card requires paying a set-up fee and includes additional fees when the card is used at an ATM. While the additional charges of a prepaid card may add up, an unbanked person may prefer a prepaid card because the card allows them the convenience of not having to carry cash, but has the same qualities of cash. Moreover, prepaid services such as prepaid cell phones and calling cards make being unbanked easier for the consumer. Prepaid services are expensive, yet the LMI continues to use such services perhaps because of habit and such habit and familiarity with prepaid services allows the AFS to grow as an industry.

In analyzing the problem of being unbanked as a rational choice, the above costs need to be compared against the costs of remaining unbanked as such costs, in this context, are equivalent to the benefits of being banked. Table 2, lists costs of remaining unbanked as documented by Berry (2004). The list includes explicit costs such as cashing checks, obtaining loans or establishing credit, and reliance upon refund anticipation loans due to delays in receiving tax refund checks in the mail. Less tangible costs of being unbanked include higher risks of holding large sums of cash on hand, inefficiencies in payment systems, and increased costs of saving in the absence of a formal saving vehicle.

3-2. Behavioral Aspects of Remaining Unbanked

From a purely rational cost-benefit perspective, in order to assist the LMI to join the financial mainstream, policymakers, banks, and the community-based organizations should, on the one hand, develop policies, products, and procedures to reduce the costs of getting banked, and on the other hand, try to increase the costs of remaining unbanked. However, Bertrand, et. al., (2006), argued that understanding behavioral nuances could also be equally effective in addressing the unbanked problem. Their paper includes several examples of why behavior may not always follow the rules of rationality. For example, they argue that default options available to an individual may change their behavior considerably. While defaults could be seen as irrelevant starting points for decisions, according to Bertrand et.al., (2006), they provide potential channel factors to guide behavior.[22] For instance, temp workers usually do not have access to direct deposit facility through their employers. And as for the full time employees, direct deposit is typically not a default option. Yet many of the LMI have to work long hours past the operating hours of banks. This clearly creates costs for individuals to use banks and can create a demand for check cashing services.

Another aspect of behavior that is at variance with the axioms of rationality is the availability of multiple alternatives. From a purely economic perspective, availability of multiple choices increases the efficiency of decisional outcomes. However, for people with lower levels of education and those with lack of access to proper information channels, variety may give rise to serious decisional conflicts leading to procrastination or other behaviors resulting in lower participation in the financial mainstream. Empirical data seems to corroborate this hypothesis. For example, 15.7% of the unbanked in the MetroEdge survey responded that

[22] See Bertrand, et.al., (2006) pg.11 for examples.

lack of motivation was a reason for not opening a checking account. More specifically, 5.3% of the 15.7% mentioned that they simply "hadn't gotten around to it".

Another striking aspect of behavior, according to Bertrand et.al., (2006), relates to the in-group/out-group perceptions reinforced by advertising. Ads and sometimes even the setup and surroundings of a business can intensify the perception that using financial centers and banks are not intended for the low income households. As Bertrand et. al., (2006) explain:

> *"A single mother who, lacking access to child care, needs to present herself at a bank in the company of her small children may be aware that, ideally, children are not brought into a bank. Along with a severely limited knowledge or understanding of financial instruments and with very little money to show for it, a poor person may feel reluctance, shame, and a general sense that he or she could never be an important or valued customer to the bank."* [23]

Most of the alternative financial service providers have tried to overcome these barriers in effective ways. They are extremely innovative and are constantly moving to provide new services to an already captured market. At most check cashing outlets, a person can pay for their bills, purchase money orders and prepaid credit cards, send money overseas, and purchase postage stamps and bus passes. In addition, check cashing outlets also provide photocopying, faxing, and coin counting services. In essence, a check cashing outlet is an all-in-one store. This has changed the image of financial transactions at AFS locations. Many of the check cashers are located in small shopping malls, next to other small retailers. They are open late like other businesses in the shopping mall thus allowing a person who may work multiple jobs have easier access to such services. In a way, the AFS has successfully transformed the image of financial transactions, making it look like another shopping experience for individuals "while they are at the mall". While, the AFS may be labeled as a predatory industry, in the eyes of the unbanked and underbanked, it is perhaps less threatening and intimidating than conventional banks because such facilities are smaller than typical bank branches and feature bilingual service representatives. Check cashing outlets lack the "grandiose" quality that bank branches exhibit. Most bank branches feature a parking lot, security guards, and several customer service representatives. In addition, check cashing outlets are not as "punitive" in nature as banks. When a person uses a check cashing service, they do not have to worry about whether they bounced several checks or were charged overdraft fees. Moreover, some of the unbanked and the underbanked may not trust conventional banks because of previous negative experiences with banks. Check cashing establishments may charge high fees, but may seem less threatening to the consumer because the fees for cashing an income check or purchasing a money order, are communicated up front to the consumer. This reduces the cognitive load of decisions for the unbanked, which is in sharp contrast to the overdraft fees charged by banks that may be perceived as hidden fees.

In elaborating on the concept of cognitive load as a barrier for the unbanked, Bertrand, et. al., (2006), point out that in most cases, filling out unfamiliar applications can consume cognitive resources. This leaves fewer resources available to process relevant information. For instance, immigrants who are not fluent in English may have difficulty understanding the forms, even if the forms are not too complicated to fill out. In case available, they have

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[23] Ibid., pg. 12.

to rely upon the bank representative to guide their decision on important matters. This clearly creates another hurdle for the unbanked individual to overcome.

Obviously, such behavioral nuances can impact decisions of the LMI in their choice of financial service providers. And while these barriers increase the cost of getting banked, another set of behavioral barriers can increase the costs of remaining unbanked. According to Bertrand, et. al., (2006), at least two psychological factors, namely, bad defaults, and mental accounting issues increase the implicit costs of being unbanked. "Bad defaults" refers to the dynamics of social networks of the poor, where one is surrounded by friends and family members that are constantly asking for help. This creates a situation where spending money becomes the safest way to keep the money for ones self. This leads to very costly savings options for the low income such as buying weekly lottery tickets.[24]

Table 2- The Cost-Benefit of Remaining Unbanked.

Costs of being Banked		Costs of Remaining Unbanked (benefits of being banked)	
Rational cost/benefit	**Behavioral**	**Rational cost/benefit**	**Behavioral**
Minimum balance requirements on accounts or monthly fees	Default options - Temp workers and LMI workers are not usually offered direct deposit options.	High cost of converting income from check to cash	Bad defaults – inability to save due to individual' s social network
Bounced checks and overdraft fees	Multiple alternatives – Increase decisional conflicts for the LMI	Lack of access to a formal saving vehicle	Mental Accounting Issues - fungible storage mechanisms if unbanked
Liquidity issues related to holding the checks upon deposit	Impressions –inability to abide by certain norms reinforced by advertising results in alienation of LMI.	Costly or impossible to establish or obtain credit without a bank account	
Documents to open accounts and Chex system issues	Cognitive load – filling out forms and applications can exhaust cognitive resources needed to process relevant information	Increased risk of loss or theft of on hand cash	
Lack of access to banks due to inconvenience of location, business hours, etc.)		Increased reliance upon Refund Anticipation Loans due to extensive delays in getting tax refund checks in the mail	
Investment costs in terms of time or money in acquiring skills to manage bank accounts		Inefficiencies in payment systems	

Mental accounting provides another explanation for lack of savings in the absence of access to bank accounts. According to Bertrand, et. al., (2006), non-bank storage mechanisms are

[24] Ibid, pg.15.

extremely fungible. Keeping small amounts of money in cash increases the possibility of spending it. Therefore having access to a formal savings account provides an opportunity to accumulate the small sums of money, simply because individuals have different propensities to consume out of different metal accounts. People generally have a lower propensity to spend money out of an account that is designated for the purpose of saving.

4. The Role of Policy

A "banking the unbanked" policy is unique from other social policies such as literacy or crime prevention because such a policy has the potential to leave people worse off than they had been before opening a checking or savings account. People who lacked a credit history, people with a "clean-slate", may end up in the ChexSystem because of account mismanagement. Such negative experiences may increase the LMI's distrust of banks, thereby increasing their reliance on the AFS. Therefore, an initiative to help the underbanked and the unbanked to enter conventional banking requires alliances and cooperation between government, banks, and nonprofits. Local governments and state government have the regulatory power that will decrease the prevalence of the AFS. Banks are the entities that provide the banking products and financial education to the unbanked and the underbanked populations. Government and banks provide the needed funds to support a banking initiative. The nonprofit agencies are the bridge between the banks and the unbanked because they service the LMI population and have the trust of the LMI population. Each entity, government, nonprofit agencies, and banks, is important in successfully implementing a banking initiative.

The AFS lacks strict regulation, despite conducting millions of dollars of the LMI's financial transactions in California.[25] The "Check Casher Permit Program" featured on the Office of the Attorney General's website states that, "While not assuring that a company is reputable, a valid permit signals that the check casher business has at least followed the law to be licensed,"[26] indicating that even government admits that the Check Cashing Program does not ensure consumer protection from check cashing outlets. Moreover, obtaining a permit for a check cashing outlet is relatively easy and requires a $50 payment to Department of Justice in California[27] and takes about 120 days to process an application. It appears that in order to make this program more effective, price ceilings should be placed on the fees charged to cash income checks, send remittances, and receive payday loans in addition to the Check Casher Permit Program. Without such price ceilings, then the Check Casher Permit Program is an incomplete policy because it does not provide effective product or service regulation.

Implementing a price ceiling for cashing income checks is a reasonable request. Many check cashing establishments will only cash government, payroll, or insurance checks. Yet some studies suggest that less than 0.05% of payroll checks bounce.[28] Moreover, very high profit margins are reported for check cashers and payday lenders (about 32.3% per store).[29] A

[25] Fisher, (2005).
[26] Office of the Attorney General. "Check Casher Permit Program." Retrieved from http://ag.ca.gov/casher/index.php.
[27] Office of the Attorney General. "Faqs. Check Casher Permit Program". Retrieved from http://ag.ca.gov/casher/faqs.php.
[28] Barragan, Roberto and Leticia Rodriguez. 2005. Pg. 24.
[29] Fisher, (2005), pg. 1

price ceiling on AFS services may result in some check cashing and payday lenders to close. So, regulating check cashing establishments and payday lenders may open the market for conventional banks. In addition, policies regulating the service fees and interest rates of the AFS should be conducted statewide because if check cashing outlets and payday lenders are only regulated in Los Angeles City or Los Angeles County, there may be a proliferation of check cashing and payday lending outlets in neighboring cities and counties. However, if this option is not possible, then L.A. City should use its leverage to influence neighboring cities and other counties to adopt policies that regulate the AFS locally. In addition, it appears that a moratorium against the establishment of new check cashing outlets and payday lenders in Los Angeles as was done in San Francisco in 1996 could be helpful. Moreover, zoning laws can also curb the proliferation of check cashing and payday lending establishments in Los Angeles City. For example, Sacramento has prohibited payday lending establishments in areas zoned for commercial mixed use development. Such a restriction is vital in ensuring that areas undergoing economic revitalization are protected from costly financial services that prevent residents from saving their earnings or spending their earnings on other businesses that are beneficial to the local economy. Utilizing zoning tools to restrict new check cashing and payday lending establishments from opening may be best left to local government. But since cities receive sales tax revenues from such establishments they may not unilaterally agree on the methods to decrease the presence of the AFS. Yet without a uniform consensus amongst cities in using zoning policies as a way of decreasing new check cashing and payday lender establishments, new AFS outlets may proliferate in certain municipalities. Therefore, Los Angeles City should use its leverage by influencing other neighboring cities to use zoning laws to prohibit the entry of new AFS establishments.

Creating incentives for conventional banks to open bank branches in underbanked neighborhoods is an important element in regulating check cashing and payday lending establishments. Without the presence of banks in LMI neighborhoods, price ceilings placed on AFS services in conjunction to a moratorium of new AFS outlets may increase the demand of alternative banking services and increase the fees that the AFS charge. Since banks have difficulty maintaining bank branches in LMI neighborhoods because of low account deposits and the costs associated with operating a bank branch, then a banking development district program could be implemented in Los Angeles, such as proposed by Assembly Bill 1502 (AB 1502) in California. AB 1502 is modeled after the Banking Development District Program (BDD) in New York. The BDD program in New York allows New York City and New York State to deposit revenue funds in bank branches located in BDD areas. The city and state deposits ensure that the bank branches in low-income communities are sustainable. Since the program's inception in 1998, there are now 15 BDD programs in New York State.[30] Moreover, the BDD program has helped decrease the demand for check cashing services.[31] AB 1502 can provide the required incentives for banks to open bank branches in LMI neighborhoods in California and decrease the demand for AFS services.

[30] Fellowes, Matt. 2006. pg. 446.
[31] Ibid.

5. Products and Outreach Channels

Convincing the unbanked and the underbanked to switch from their present financial services will require actual banking products that the LMI need and want, a marketing strategy, and outreach channels through which unbanked and underbanked will be reached.

Low or no fee checking accounts and no minimum savings accounts are needed to create a demand for banking products in the LMI. Such products may already exist amongst the major banks in Los Angeles. Following Bertrand, et. al. (2006) it could be recommended that there should be one specific checking and savings account offered to the LMI that features free checking and a no minimum balance savings account in Los Angeles. The advantage of a singular checking account and savings account is that it would decrease decisional conflicts and distrust of the banks. However, it may be unlikely that banks in Los Angeles will create a checking account and savings account specific to Los Angeles because of the costs associated with creating such products and the overall practicality of creating banking products that already exist. Instead, a banking initiative in Los Angeles can include an official list, featuring Los Angeles City's recommendation and approval of banks that feature similar checking and savings accounts.

Banking Campaigns should be designed emphasizing the benefits of banking and perhaps more heavily, the losses associated with remaining unbanked. For some immigrant LMI families there is no frame of reference as to how important the financial sector is to their economic well-being. In many third world countries, financial sector is grossly underdeveloped, so for immigrants coming from these countries there is no precedence to using bank accounts. In addition, in many countries, banks do not insure a person's funds. A marketing campaign indicating that banks in the U.S. are regulated and insured by the FDIC may decrease the unbanked's distrust of banks. Furthermore, since the unbanked in Los Angeles comes from a wide variety of ethnic groups, a marketing campaign should feature advertisement in different languages at the 5th-8th grade reading level[32]. Since not all of the LMI are ready for bank accounts, a marketing strategy should also provide hope and inspiration in opening a bank account.[33]

The benefits of banking can be voiced during tax season, from early February to April, when the LMI seek tax preparation services to receive their Earned Income Tax Credit. Free tax preparation sites, such as Volunteer Income Tax Assistance Program (VITA) sites, can be valuable platforms upon which financial literacy and the benefits of banking can be taught. Since people have entrusted their financial documents to a VITA tax preparer, they may be more receptive to financial advice and more interested in opening a bank account, especially when they will be receiving extra money. During tax preparation, perhaps opening a savings account rather than a checking account should be emphasized as the initial step to banking. Since the unbanked are assumed to be adverse to risk, a savings account, which lacks the risk of overdraft fees in a checking account, may be a better choice for someone entering conventional banking for the first time. Moreover, for the unbanked person who does not qualify for a checking account as a result of bad credit, good management of a savings account is a good way of eventually qualifying for a checking account. In order to reach the

[32] Barragan, Roberto. Personal Interview. 23, Aug. 2007.
[33] Tom-Muira, Allison. Personal Interview. 20, Aug. 2007.

most unbanked, this strategy must increase the number of VITA sites in Los Angeles and provide enough funding for staff training, supplies, and technology platform to allow online application to open bank account. Perhaps banks can provide staff at VITA sites to enroll new customers in bank accounts. Moreover, bank customer representatives and managers should also be well trained in preparation for customers that are new to banking. Creating a positive experience for a newly banked individual is essential in ensuring that the newly banked person will recommend banking to other unbanked families and friends.

Large employers provide another channel through which the unbanked can be reached. Financial education given during lunchtime at work is a good way of reaching the unbanked because of convenience and an already captured audience. Introducing bank accounts at work is also beneficial because some of the unbanked may already be good candidates for checking and savings accounts, but may have simply not known about low or no fee bank accounts. Financial education and introduction to bank accounts can also be given during vocational education, where the majority of the participants will have increased income and are more financially ready to open bank accounts.

Like employers, nonprofit organizations that already service the LMI community are good channels to reaching the unbanked. For example, financial literacy classes are given at day care facilities offered by the Mexican American Opportunity Foundation (MAEOF). At MAOF child care facilities, attracting people to attend the financial education classes is easy because parents can simply attend the classes during the evening when they pick up their children.[34] A similar model is used by some Headstart programs in LA County. Post-Employment Services (PES) of the County of Los Angeles could be another good venue to discuss banking and assetbuilding opportunities with households that are getting ready to leave TANF and other the public benefits assistance programs.

Nonprofits have the trust of the community and are the link between the unbanked population and the banks. Nonprofit organizations that directly work with the LMI are the most capable in helping this population because they witness the daily struggles and concerns of the poor. However, such agencies are limited unless they receive ample financial support from government and banks. Adequate funding is required to ensure that nonprofit organizations train their staff to ensure consistency.

6. Concluding Comments

The unbanked and the underbanked population in the Los Angeles region tend to be low-income and have little education. While the unbanked and the underbanked cite lack of funds to maintain bank accounts, the high price that the LMI are willing to pay for non-banking services seems contradictory. In order to better serve the unbanked and underbanked communities in Los Angeles, there should be a survey of the unbanked and underbanked populations specific to the Los Angeles region. Introducing the unbanked and the underbanked to conventional banking will be challenging because they face multiple issues such as employment, housing, and food. Opening a bank account may not be at the forefront of an unbanked person's mind. A banking initiative may not be successful unless it

[34] Rodriguez, Carolina. Personal Interview. 7, Aug. 2007.

is coupled with another policy aimed at increasing a person's education and ability to earn more income. Yet banking is nonetheless an essential component in increasing one's savings, building credit, and exiting poverty. Therefore, to successfully help the unbanked and the underbanked enter the financial mainstream, the AFS must be regulated and banks need to be given incentives to open bank branches in LMI communities. Furthermore, the banks should reach an agreement to offer a standard product for people who are entering the financial mainstream for the first time. While banks may choose different names for this account, having a standard prefix or a suffix attached to the name will be very helpful in promoting the product to LMI households. Moreover, a marketing strategy that espouses the benefits of banking and losses associated with remaining unbanked should be implemented. Financial education and entry into bank accounts can be provided through outreach organizations at VITA sites and financial education workshops given during the workday at worksites. The success of a banking initiative aimed at banking the LMI depends on the alliances between government, nonprofit agencies, and banks. Since there are many entities involved in orchestrating such an initiative and a large population to serve, Los Angeles City should act as the unifying entity amongst banks, nonprofit organizations, and local governments. Without a central unit that brings together multiple participants, a banking the unbanked initiative will not gain the momentum required for a successful program.

It appears that such an initiative should be coupled with workforce development because the segment of the LMI that is receiving additional job training will be more likely to be financially equipped for a bank account. Workforce development and introducing the unbanked into the financial mainstream is necessary for the LMI, especially when many of the LMI are being displaced from their communities as a result of economic revitalization in Los Angeles. The employers should be encouraged to offer direct deposit as a default option for all of their new hires. The income segment of the LMI that is ready for banking services in addition to the types of jobs that are growing in demand in Los Angeles need to be identified. Such information will help create better policies aimed at decreasing the growing gap between the "have and have-nots" in Los Angeles. By identifying the industries that will need a larger workforce, community colleges can perhaps offer the required workforce training needed to increase the population of the unbanked that will be ready for bank accounts.

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