New America Foundation

filene RESEARCH INSTITUTE

Asset Building Program

"We Don't Do Banks"

Financial Lives of Families on Public Assistance

Rourke O'Brien, New America Foundation

March 2012

When asked whether he or anyone in his household has a bank account, Billy, a 24-year-old out-of-work father of two young daughters quickly retorted, "We don't do banks." A recent survey by the Federal Deposit Insurance Corporation (FDIC) reveals that Billy is not alone—more than 9 million American households are unbanked, meaning they have no checking or savings account.[1] For more than a decade, policy researchers and advocates have sought to increase the use of bank accounts by low-income and minority households, both by increasing demand through education and outreach and by encouraging banks to better tailor their products to the needs of low-income consumers.[2]

Motivating this line of policy advocacy is the assumption that low-income families would be financially better off "banked." And there is good reason to believe this is the case: Unbanked consumers spend hundreds of dollars a year conducting routine financial transactions.[3] However, this near singular focus on the banking status of households and its relation to poverty has prevented a richer appreciation of how low-income families manage their money.

In order to design effective public policy, it is essential to have an accurate portrait of how low-income families manage their money and use financial services—including "alternative" institutions and products, such as check cashers and prepaid cards. Understanding the preferences of consumers and current patterns of behavior in an evolving financial services landscape will enable policymakers to design more effective policy interventions to empower households with a safe and convenient way to manage money, pay their bills, and save for the future.

This brief details findings from a qualitative study of the financial attitudes and behaviors of individuals currently receiving Temporary Assistance for Needy Families (TANF) cash assistance benefits, commonly known as welfare. These findings are based on in-depth interviews with 37 CalWORKs recipients in two major California cities. To qualify for CalWORKs assistance, a single parent with two kids must earn less than about $12,000 annually; the maximum benefit is just over $600 a month. A range of topics are discussed, including a family's experience on CalWORKs, their use of mainstream and alternative financial services, and their strategies for saving, accessing credit, and planning for the future. Interviews were transcribed and coded into a number of thematic

[1] FDIC (2009).
[2] Seidman and Tescher (2005); Caskey (2005); Beard (2010).
[3] Desmond and Sprenger (2007).

categories. The discussion below relies heavily on illustrative quotes pulled directly from these conversations. While no effort can fully capture the rich detail of the economic lives of these individuals, I have sought to distill those aspects that have important implications for policy and practice. Following this discussion I highlight these implications.

Financial Lives of CalWORKs Recipients

Routine Money Management: Accessing Cash

Cash assistance in California, as in many states, is provided to recipients on an Electronic Benefits Transfer (EBT) card. EBT cards are similar to debit cards in that benefits can be accessed by withdrawing cash at an ATM or by swiping the card for point of sale transactions anywhere EBT is accepted. The most consistent complaint among those interviewed concerns the high transaction costs involved in accessing cash from the card. As one man in his early forties explained:

"Actually what I do is withdraw once from the bank…They charge you three bucks a transaction. And Bank of America's notorious for charging people $5 for non-account holders….And so—and it's actually cheaper to cash a check at a check cashing place than it is Bank of America. And I've gotten into an argument with the manager, I said, you know, this is a sorry ass way to recruit new customers. You know? You don't have to come over here if you don't want us, and not only will I not come back, I will encourage other people not to come back."

Withdrawing the entire cash value of benefits at one time is a common strategy employed by CalWORKs recipients looking to avoid transaction costs:

Q: "So you get—so they load up the card and then—so you just go to an ATM, withdraw everything?"

A: "Yeah. That's the best way to do it. Otherwise you're just gonna get nickel and dimed. You know that, I mean, for having a bank. Bank of America will charge you five bucks for going through a—to a private ATM machine to check your balance. That's five bucks. That's robbery without a gun. If you're 71 cents overdrawn it's a $35 fine. Again, that's robbery without a gun."

Others avoid the high fees by seeking out specific banks that have arrangements with the state to not charge for withdrawals from EBT cards. A more common tactic is to get cash back at a grocery store or other retail outlet, which is both free and convenient.

> Understanding the preferences of consumers and current patterns of behavior in an evolving financial services landscape will enable policymakers to design more effective policy interventions to empower households with a safe and convenient way to manage money, pay their bills, and save for the future.

The central role of cash in financial management is a constant theme. A number of respondents were wary of using anything but cash or money orders to pay bills. Most cite bad experiences with using checks or automatic payments from bank accounts as their key motivations for sticking to cash or money orders. Some, such as Keisha, mentioned that they get greater peace of mind from paying bills directly in person with cash or a money order:

"I do a lot of things through money orders or actually go to the paying center because I don't know I'm the type of person I'm not really those type of people that always—even when I had like a lot of money in my bank account I never believe in charging it over the phone or over—I always—even if it's far I like to be physically there at that payment center and make that payment and get that actual receipt. So I'm that type of person that will always pay my stuff with money order but I'll actually take it to that place or either that just take cash. I think because nowadays so much fraud going on I just make that extra trip to—actually—just like my T-Mobile I actually went there, the payment center and paid like instead of just—I could've just paid it over the phone but I choose not to."

Bank Accounts: Overdrafts, Fees, and Getting in Trouble

More than two-thirds of respondents indicated they do not currently have a checking or savings account. Yet all but two reported previously holding an account at a bank or credit union that has since been closed. The most common reason cited for no longer having a bank account is "getting in trouble," that is, overdrafting an account and failing—or in some cases refusing—to pay the requisite penalties. Past experiences with banks and credit unions have left these men and women with strong, negative feelings toward financial institutions and have led them to construct financial lives that avoid these institutions altogether. James, a construction worker in his mid-thirties who was recently laid off, explained why he no longer has a bank account:

"It's always been I'd get charged for something, or I over charge....Overdraft and then it's like the bill to pay the overdraft fee is like thirty something dollars to pay for a $2 overdraft, and it was just—I couldn't handle that mathematics. I didn't want to have to deal with something like that. Or if I made the mistake of overcharging one dollar, you know, now I gotta pay $30, it didn't make any sense to me. So I just stopped with the whole credit cards and banking and stuff like that. So I keep money hidden in my little safe I got, you know."

Unbanked status is not always voluntary, however. Some respondents described how, after failing to pay overdraft fees associated with an account, their account was closed and they were prevented from opening another account, even at a different institution. Michelle, a seamstress who emigrated from Vietnam in the late 1970s, described her experience being in ChexSystems, the industry-wide database that maintains data on people's banking history, including outstanding balances owed for fees:

"Yeah, I owe Wells Fargo. But like in this place usually if you owe the bank like $100, even that, they put you in the check system....The check system is like, you know, it's like a debt place. What they call the check system, because you owe so—so much money to them, that you haven't paid it in so many—in the amount of time that they wanted you to. So automatically they put you into this check system so that if you try to go open another bank account and you haven't paid them off, they'll automatically know when they run your Social Security card."

For some, it was not the actual amount of fees charged that informed their attitudes toward banks and motivates their desire to remain unbanked but rather the unpredictable, seemingly unreasonable nature of the fees. Respondents echoed a common theme: they are willing to pay to conduct routine financial services, as long as the fees are transparent.

A number of individuals described, with outrage, an instance where even the smallest financial mistake on their end was met with seemingly disproportionate fees and penalties from their financial institution. As one woman in her early forties stated:

"I had forgot that I had an automatic withdrawal which was from my car insurance and I haven't used my bank account and from being negative 30 something dollars and it ended up going over $200 and I'm like I don't have the money for this and they closed my account. When I actually was calling them to see about making some small payments to do something they said 'Oh no your account just closed like two days before that,' they had closed it and I was like oh my God. So they're like now I have to go through—they gave me a different 800 number, I got to go through them to try to start making payments."

For some, it was not the actual amount of fees charged that informed their attitudes toward banks and motivates their desire to remain unbanked but rather the unpredictable, seemingly unreasonable nature of the fees. Respondents echoed a common theme: they are willing to pay to conduct routine financial services, as long as the fees are transparent. Billy explained it like this:

"We don't do banks....Banks, I just—we just don't like to have the problem with going down there, getting the money

out, just have to deal with the whole nine yards just going down there, you know? So we just rather be able to just pull it out of our card just like cash. Because we're used to having cash, just boom, you know. With these [prepaid] cards you just use 'em and they work pretty good. 'Cause you gotta pay $1 every time you use it, but I think it works a lot better than going down to the bank. Just have to wait till they open up or the—the check clears or anything like that, you know? Not too cool."

Prepaid Cards: Easy to Use, Easy to Understand

Prepaid cards—like those mentioned by Billy—surfaced in interviews as a popular alternative for managing finances. Motivations for using prepaid cards varied. Some respondents cited a desire to carry less cash as their main reason for using prepaid cards, as carrying cash is unsafe and facilitates thoughtless spending. Others noted that certain prepaid cards provide safeguards against loss or theft. Still others noted that having a prepaid card branded with Visa or Mastercard or a comparable exchange logo allows them to make purchases virtually anywhere, including places that do not currently accept EBT cards. However, the main reason cited for relying on prepaid cards is that they are not banks. Prepaid cards are seen by many as a substitute for traditional bank accounts. Despite the high fees, respondents cited the transparent and predictable nature of the fees to be a primary driver for using prepaid cards over traditional banking products.

One mother of three described why she conducts nearly all of her financial transactions using prepaid cards:

"Because half of—half of the companies now days, like bill—bill places where you pay bills, they will take a prepaid card, too. Because it does have the Visa Master logo—MasterCard logo on it. So they do take that. You know, and some people here might not be able to—be able to get a bank account, right?....'Cause maybe some of us, or half of us here have a situation where we can't afford to get another bank account. So the prepaid card came out and it's been a good thing for everybody. You know? It's a easy way to access. You know, a lot of people accept it now days. It's just like a bank card except you don't have to deal with people, you know?"

Her feelings were echoed by another CalWORKs recipient who appreciated a number of features of the prepaid card—most importantly, that he "couldn't mess up" and end up being liable for hundreds of dollars in fees:

"Yeah, you can get it [prepaid card] anywhere....And it's easy to use for people. You know, it's like you don't have to owe the bank, like, 'cause the banks don't really have the overdraft protection where they take advantage of the bank and they pull out money that they don't have in the bank. They used to be able to do that. But now they have the overdraft protection. And it's a hassle with the banks, you know what I mean? With a prepaid card it's just you managing it your way. Nobody calls you, nobody tells you, oh, you have no money in there, you need to put some. It's nothing like that. It's whether you want to have money in it, you know? And I think that's a good thing."

Despite the high fees, respondents cited the transparent and predictable nature of the fees to be a primary driver for using prepaid cards over traditional banking products.

Savings: Creative Solutions

Even without formal bank accounts, a number of CalWORKs recipients indicated they do save, particularly for unforeseen expenses. Each household had its own method of saving: under the mattress, in a piggy bank, or in a separate purse or wallet. Knowing that she may be tempted to spend whatever she was able to save, Kea took a different approach:

"You know what, I don't have a bank account but I'm able to save. Like I'm saving now with the little bit of pennies I get....I give it to my older brother and my older brother lives in his own house, he has a safe at his house for whatever me, my sister and my other brother give him and he's well financially secure, he doesn't have no children it's just him, owns like three AT&T stores, owns land in Mexico and on the resort, owns two homes here."

Kea was not the only respondent to report giving some of her money to others for saving and safekeeping. Yet beyond serving as money guards, friends and family also proved to be crucial sources of short-term credit.

Friends and Family: A Crucial Source of Support

Social networks—friends and family—are the most important source of assistance for CalWORKs recipients who need money to cover an emergency. Although interest is rarely charged, borrowing from friends and family is not without cost. As Mary explained when asked where she would turn if she needed money in a pinch:

"Oh, my brother....Do I feel uncomfortable about it? Course I do, yeah, I do. I hate it. Because I want to pay him back. You know, I don't want a hand out."

Sarah, a mother of two young boys, said that relying on her mother for financial support in an emergency has strained their relationship. When asked where she goes if she needs help, another respondent, Virginia, said:

"To my mom, I hate doing it because she helps so much but I just keep my fingers crossed....My mother keeps track of everything....Yeah, you don't think she does but then all of a sudden she'll throw something at you, you know I already paid so much but she makes it where it sounds nice, it really adds up after a while you don't realize how quickly it adds up and I balance her checkbook for her and I said yes I know, I know how quickly money comes and goes."

Expectations of providing assistance to friends and family often go both ways—those who have money are expected to help out those who do not. Unfortunately, this reliance on friends and family for loans can have devastating financial consequences. Marlease, a mother of three who had a public sector job for 25 years before going on assistance, described what happened when her friends and family found out she received a lump-sum check of $30,000 from her retirement:

"When I got that I was getting phone calls everyday, get your money yet, you think you gonna let me borrow this or my brother asked me to borrow—give him money for an engine I was like what the heck, you're not getting that, you're working, no."

Marlease went on to describe how she ended up "loaning" virtually all of her money to friends and family—within six months all she had left was a series of IOUs that she did not think she would ever be able to collect on.

Short-Term Credit, Payday Loans, and Credit Cards: The Long Hangover of Debt

Despite an expressed need for short-term credit and liquidity, few respondents reported using credit cards or alternative credit products such as payday loans or auto-title loans since they started receiving CalWORKs cash assistance. Yet, a number explained that they did have problems with these credit products before applying for assistance. As one woman in her early fifties described her experience with payday loans:

"I have used it and I got backed up, I got backed up... This was a few years ago, a few years back. I did start using it I think something on my car messed up, I think I needed brakes or something and it was like—I think when I went to Sears it was like 300 and some dollars and I was like oh my God but I need my brakes fixed. So this was when I was working and I went and I went there and the lady helped me but once you start doing that you get pulled into you have to keep doing it. Unless you have that extra just $300 floating around which a lot of us don't you get—like I said you're pulled into it but then I kind of think about it that extra what is it like $50 for that little transaction, that's an extra $100 that I could be using but I know I used it at the time that I needed it. But then I got behind to where I couldn't catch up again...."

Her experience was not unique—many of the men and women interviewed turned to costly credit products before applying for assistance in an effort to cover income shortfalls and unexpected emergencies while remaining self-sufficient. By the time they applied for CalWORKs, most had either sworn off or maxed out credit cards and no longer had the stable income or assets needed to qualify for payday or auto-title loans.

Yet, nearly all of the men and women interviewed expressed a need for short-term credit—somewhere to turn for help covering unexpected expenses. Most claimed their needs for short-term credit were met through help from friends and family, although the emotional cost was often high. Others turned to a network of nonprofit, charitable, and religious institutions for support.

Nearly all of the men and women interviewed expressed a need for short-term credit—somewhere to turn for help covering unexpected expenses. Most claimed their needs for short-term credit were met through help from friends and family, although the emotional cost was often high.

In the course of the interviews, I asked recipients to react to an idea that would allow them to take an "advance" on their CalWORKs benefits. Recipients who had an immediate need would be eligible to take out a cash advance or loan of no more than a few hundred dollars against their benefits. The loan would be repaid through a reduction in benefits over the course of several months. When asked what they thought of this proposal, reactions were extremely mixed. Many thought the idea was a good one and would provide them with much-needed liquidity. They were confident they would use the loan only as a last resort. Others, however, expressed strong opposition to the idea, arguing that CalWORKs benefits are already too small and that the need for money is constant: If families take out a loan to cover a financial shortfall in one month, the reduced benefits will just create more financial shortfalls in the months ahead. One CalWORKs recipient summarized both sides of the argument:

"You know, that idea it sounds like it could help. I think of the loan, think of helping so that they pay it off instead of getting their 325, they'll get their, you know, 290 or 250 until it's all paid off. And then, you know, yeah, I think it's a pretty good idea. But then it might hurt in the long run because, you know, just like you have your pay check from work and you did your accounting to say, okay, I need this 1,300 to pay my rent, my gas bill, and that something essential, but now here's your car. So instead of getting the 1,300, you get 1,000, and so now it's like throughout the month you're missing those 300, so what bills are you gonna miss or what meals are you gonna miss?"

Institutional Barriers: Asset Limits, Child Support, and Restitution

In the course of our conversations, CalWORKs recipients described a number of institutional barriers—government policies and program rules—that had important, negative consequences for their own financial lives.

A number of those interviewed, for example, described how they avoided using banks and credit unions or were cautious to not save too much money out of fear that doing so would lead to a reduction or loss of benefits. While few actually know the technical rules around "asset limits" in California—the amount of assets a family can have and still qualify for assistance—there is a strong impression that using banks and saving money may be penalized. As one young mother explained:

"They ask if you have a bank account, I think that they like to monitor how much you have in the bank, that's what I think I don't know. But they don't give you anything, there's nothing to monitor in the bank."

Some recipients thought that the state, in addition to monitoring their overall account balances, was monitoring all of their financial transactions. As one woman explained:

"And then I'll pull out like 150 at the most from the bank because I want them to be able to sure—'cause a transaction will say at the end of the month I put so much money in and then I show it to the worker here so she knows I'm actually, you know, not keeping all this money in the bank. 'Cause what they do is they want you to pull out a printout of your statement like every three months. For the records so that they know how much you're actually holding in the bank. 'Cause with the money that we receive every month, the—their thing is we're supposed to pay rent with the money or, you know, spend it on, you know, our children or something like that. But they want to be able to see that you're not saving that money and just collecting, collecting."

Q: "So then also you think you'll get in trouble if you were saving it?"

A: "I think we would, yeah."

Fear of asset limits is not the only reason CalWORKs recipients claim they purposefully avoid using banks and credit unions. Garnishment of wages also encourages individuals to avoid formal financial institutions. In addition to garnishment for unpaid taxes or child support, a few respondents described how much of what they earn is claimed by the state to pay restitution debt—money owed to the state of California to reimburse the costs of incarceration. One man in his early thirties described how having restitution debt of more than $7,000 affected his financial life:

"Well, normally I would have to send them money. Send them like a money order to the restitution office, or go there and pay it in person. But since I waited so long to pay them, now it's to collections, so I'm figuring if I start working, you know, if I start working and get a normal job and paychecks that I'm sure collections will go and be deducting and taking it straight out of my checks… I did have bank accounts, but since it went to collections I shut my bank account down so they didn't wipe out what money I did have at the moment….Eventually I think they can tap into it and either take out everything from what they, you know, from what I owe, or maybe little by little. I'm not sure how it works. I just took my money out before I find out how that works."

Besides having a profound effect on how CalWORKs recipients structure their financial lives, these government policies and program rules have important consequences for recipients' attachment to formal financial institutions.

Implications for Policy and Practice

Better understanding the financial attitudes and behaviors of TANF recipients offers insights for improving program design and delivery. Below I offer a number of policy directions designed to meet the financial needs of low-income families.

Reduce the Cost of Routine Financial Transactions

- *Brand EBT Cards with Visa or Mastercard*
  Branding EBT cards will greatly enhance their usability, as they will be accepted for payment virtually anywhere. This will greatly reduce reliance on cash or the need to purchase other financial products—such as money orders—to pay bills or conduct other transactions. Branding these cards will also serve to reduce the stigma associated with public benefits receipt.

- *Make EBT Cards Reloadable*
  By making EBT cards reloadable, benefit recipients will instantly become owners of prepaid cards, giving them the ability to put cash on the card.

- *Make Withdrawals from EBT Cards No-Fee*
  Beyond partnering with select banks and credit unions to waive fees for EBT cardholders, states should either mandate that all banks and credit unions waive fees for a set number of transactions or reimburse EBT account holders for any fees incurred.

Enable Families to Save Money and Plan for the Future

- *Provide a Savings "Bucket" to EBT*
  Currently, individuals use EBT cards similar to checking accounts where they withdraw or debit money. States should create a savings "bucket" component to EBT cards where an individual can transfer some of his or her benefits. Money could be automatically transferred and deposited each month or manually transferred by phone or by using an ATM or online portal.

- *Eliminate Asset Limits and Reduce Reporting Requirements*
  States must not penalize low-income families for saving money or using bank accounts. Therefore, asset limits in public assistance programs must be reformed and—where possible—eliminated.[4] Further, states should work to reduce reporting

[4] O'Brien (2009)a. O'Brien (2009)b.

requirements on an individual's financial transactions.

Encourage Attachment to Safe and Affordable Banking Products

- *Encourage Development of Basic Bank Accounts*
  Currently, States should work with the private sector to increase supply of and access to financial products that are safe and affordable and meet the needs of low-income consumers.[5] These products must have a transparent fee structure and be stripped of many of the complexities—such as overdraft and its variants—that often ensnarl low-income families and burden them with tens to hundreds of dollars in fees.

- *Explore the Potential of New Products*
  Many of those interviewed managed complex financial lives without having a traditional bank account. States should explore how other products—such as prepaid cards[6]—can be used to help families meet their financial transaction needs.

Explore Ways to Help Families Cover Unexpected Expenses

- *Offer Automatic Savings Options*
  Provide those who receive assistance with the option of having a small percentage of their benefits withheld in savings.[7] These savings can then be tapped when needed to cover an emergency expense or used to make a productive investment. Savings could be matched with public or private dollars.

- *Offer Small Loans for Those Transitioning Off Assistance*
  Current CalWORKs recipients are rightfully wary of taking out a loan against their benefits, as current payments are already seen as insufficient to make ends meet. States could, however, consider creating a small-dollar loan program for those transitioning off assistance. This would provide these families with the flexibility they need to cover emergency expenses without having to fall back on assistance or turn to high-cost credit products such as payday loans.

[5] See, for example, the description of basic bank accounts in New York State, www.banking.state.ny.us/brbba.htm.
[6] Gordon (2009).
[7] For an example of how such a program could be structured, see A. Lopez-Fernandini, E. Seidman, and R. Cramer, "AutoSave: An Overview" (New America Foundation, Washington, DC, 2008).

As a Research Fellow in the Asset Building Program, Rourke O'Brien concentrates on policies aimed at promoting economic self-sufficiency for low- and moderate-income families. Mr. O'Brien's research projects include analyzing the economic behavior of low--income families, specifically to determine how public assistance eligibility and informal lending networks influence savings. Mr. O'Brien is currently a doctoral student in sociology and social policy at Princeton University, where he is a National Science Foundation Graduate Research Fellow.

The author would like to thank the Filene Research Institute for its financial support of this work.

A version of this brief is forthcoming in May 2012 in the Georgetown Journal of Poverty Law and Policy 19, no. 3.

References

Beard, Martha Perine (2010). "Reaching the Unbanked and Underbanked." Central Banker. Winter 2010, 6–7.

Caskey, John P. (2005). "Reaching Out to the Unbanked." New York: Oxford University Press. 2005.

Desmond, Tyler and Charles Sprenger (2007). "Estimating the Cost of Being Unbanked." Federal Reserve Bank of Boston, www.bos.frb.org/commdev/c&b/2007/spring/article9.pdf.

FDIC (2009). National Survey of Unbanked and Underbanked Households, 2009.

Foster, Kevin, Erik Meijer, Scott Schuh, and Michael A. Zabek (2008). "The 2008 Survey of Consumer Payment Choice." Federal Reserve Bank of Boston. www.bos.frb.org/economic/ppdp/2009/ppdp0910.pdf.

Gordon, Sarah E. (2009). "A Tool for Getting By or Getting Ahead? Consumers' Views on Prepaid Cards." Chicago, IL: Center for Financial Services Innovation, 2009.

Lopez-Fernandini, Alejandra, Ellen Seidman, and Reid Cramer (2008). "AutoSave: An Overview." Washington, DC: New America Foundation, 2008. http://newamerica.net/publications/policy/autosave_0.

New York State Banking Department (2011). www.banking.state.ny.us/brbba.htm.

O'Brien, Rourke (2009)a. "Ineligible to Save? Asset Limits and the Saving Behavior of Welfare Recipients," Journal of Community Practice 16, No. 2 (2009): 183–99.

O'Brien, Rourke (2009)b. "Savings Policy and Eligibility Rules for Public Assistance," in *A Penny Saved Is Mobility Earned: Advancing Economic Mobility through Savings.* Washington, DC: Pew Economic Mobility Project, 2009.

Seidman, Ellen and Jennifer Tescher (2005). "Unbanked to Homeowner: Improving Financial Services for Low-Income, Low-Asset Customers," in *Building Assets, Building Credit: Creating Wealth in Low-Income Communities*. ed. Nicolas Paul Retsinas and Eric S. Belsky. Washington, DC: Brookings Institution Press. 316–47.

MAIN OFFICE
1899 L Street, NW
Suite 400
Washington, DC 20036
Phone 202 986 2700
Fax 202 986 3696

CALIFORNIA OFFICE
921 11th Street
Suite 901
Sacramento, CA 95814
Phone 916 448 5189

NEW AMERICA FOUNDATION
WWW.NEWAMERICA.NET