



Personal Finance Program

Executive Summary

Expanding Access to Banking in Georgia

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Introduction

Access to safe, secure, and affordable banking services is a necessary component of ensuring one's personal financial security. Many Georgia residents, however, are unable or unwilling to participate in traditional banking. An alarming 19.4% of Georgia households are **unbanked**, meaning that they do not maintain bank accounts.¹ Another 12.2% of Georgia households do have bank accounts, but also use costly alternative financial services such as check cashing, prepaid cards, and short-term loans.² Individuals who supplement traditional banking with alternative financial services are termed **underbanked**.

Georgia ranks as fifth highest state in the nation for its percentage of unbanked households *and* its percentage of underbanked households.³ Underserved Georgians miss out on the long-term benefits of traditional banking, and are more vulnerable to lifelong debt and predatory lending.

The Importance of Mainstream Banking

The evidence is clear: Americans who participate in mainstream banking are financially better off than those who do not. Checking and savings accounts benefit account holders in several ways, such as providing the means to make basic, day-to-day financial transactions; facilitating the growth of one's savings, and helping to build and improve personal credit.

On the other hand, those who do not have traditional checking accounts face numerous negative consequences. Without access to mainstream financial services, consumers have no safe place to keep money or access funds in an emergency. These individuals are also less likely to grow savings, and will spend tens of thousands of dollars over a lifetime on the high fees associated with check cashing, money orders, and other alternative financial services.

Despite the many benefits and protections derived from mainstream banking, there are several reasons why individuals choose not to have bank accounts. The most commonly cited

¹ FED, DEPOSIT INS. CORP., 2011 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS 26 (Sept. 2012).

² *Id.*

³ *Id.*

reasons for not having a bank account include: the belief that they do not have enough money for standard monthly fees and minimum account balances; past negative experiences of accountholders who incurred high penalty-fees, and lack of knowledge sufficient to navigate through the mainstream financial system. Additionally, more than 644,000 Georgia households are prohibited from opening accounts due to poor credit, failure to pay fees on previously held accounts, or lack of government-issued identification.

Banking Institutions in Georgia

Consumers' personal finance choices are impacted by the size, branch locations, fee-pricing structures and account policies of the banks located in their neighborhoods. The largest financial institutions tend to charge higher monthly and penalty fees to accountholders with low balances. Notably, large national banks hold nearly half of all checking accounts in Georgia.

Account policies adopted by Georgia banks also deter low-income residents from having bank accounts. For instance, the median minimum balance required to waive monthly fees for checking accounts in Georgia is \$5000 - double the national average of \$2500. With such barriers to entry into the financial mainstream, it is easy to see why unbanked and underbanked consumers in Georgia believe they do not have enough money to be accountholders.

Legal and Regulatory Background

Banking in the United States is regulated by the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Federal Reserve System, and the Consumer Financial Protection Bureau. The latest regulations promulgated by these agencies discourage banks from charging high penalties. Recent FDIC guidance directs banks to minimize customer costs by limiting the number of transactions per day that may be subject to overdraft fees. Additionally, a new Federal Reserve regulation substantially limits the circumstances under which a bank may charge overdraft fees to accountholders.

Since the new regulations have gone into effect, banks have lost billions of dollars in revenue. To make up for lost profits, a majority of banks have replaced high penalties with monthly account maintenance fees and higher account balance requirements. As "free" accounts continue to disappear, the number of unbanked and underbanked households will inevitably rise in Georgia and nationwide.

Banking Initiatives for Low-Income Consumers

A. Bank On

Various federal agencies have recently experimented with basic banking projects. Most recently, the Department of the Treasury has endorsed the "Bank On model" as a way to reduce barriers to banking and increase access to the financial mainstream. Bank On is an initiative in which low-cost checking and savings accounts are made available to unbanked and

underbanked consumers by area banks, while trusted community partners increase awareness, encourage account opening, provide targeted outreach and provide access to financial education.

The Bank On model has proven successful, with seventy-three local programs created in the past eight years. Because of the localized nature of Bank On, the model can be tailored to meet the needs of any community, ranging from rural areas to inner-city neighborhoods. Furthermore, Bank On's focus on direct collaboration between financial institutions and community partners eliminates the need for new regulations and laws, removing many bureaucratic obstacles to reaching underserved consumers.

B. Basic Accounts

Some state governments encourage banks to offer low-cost checking accounts, usually referred to as "basic accounts." Basic accounts feature reduced monthly maintenance fees, limited penalty-type fees, and low minimum balance and initial deposit requirements, making it easier for low-income consumers to participate in traditional banking. However, basic accounts are only mandatory in a small minority of states, of which Georgia is not a part.

C. Banks' Voluntary Efforts

Several banks and credit unions have agreed to replace their lengthy disclosure documents with a standardized one-page disclosure "box" that showcases account fees in clear, unambiguous terms. The widespread adoption of the summary disclosure box makes it easier for consumers to understand policies, compare multiple account terms, and make informed banking decisions.

Many financial institutions have also introduced auxiliary financial services for low-income consumers: American Express' Bluebird prepaid card provides mobile bill payments and allows customers to reload funds at Wal-Mart; Wells Fargo offers international money transfers, and Regions offers walk-in bill payment for non-customers.

Prepaid cards are by far the most popular alternative financial product currently available. This product may be appealing to unbanked and underbanked consumers who have been hit with overdraft fees in the past, because they are convenient and offer many of the same features as traditional bank accounts. However, unlike deposits made to checking accounts, funds loaded onto prepaid cards are not federally insured against bank failures. Furthermore, prepaid card fee structures and disclosure policies vary considerably, making it difficult to comparison shop. A small but growing number of prepaid cards even offer overdraft plans, essentially undermining the simplicity that made prepaid cards appealing in the first place.

For some consumers, prepaid cards and other alternative financial services present an appealing and reasonable way to make basic, day-to-day transactions. Nevertheless, prepaid cards do not provide the same level of consumer protection as traditional bank accounts. As prepaid card fees and policies grow increasingly complex, consumers must become more astute

when shopping for the financial services that best meet their needs.

Opportunities for Advocacy

The most fundamental way to reduce the number of unbanked and underbanked consumers in Georgia is to do outreach in underserved communities. Since “perceived high cost” is the most popular reason given by low-income consumers for not having a bank account, an education campaign on the importance and benefits of traditional banking would be the most effective way to dispel common misconceptions and encourage low-income Georgians to return to the financial mainstream.

Additionally, there is room for change at the policy level. Consumer advocacy organizations can follow all relevant developments in federal banking policies, and submit public comments on proposed regulations as necessary. Georgia organizations may also lobby state government officials to pass a law mandating the use of basic accounts.

Advocacy organizations also can work alongside government officials and financial institutions to create a local Bank On program. To date, there is only one active Bank On program in Georgia (Bank On Savannah, led by Step Up Savannah). The Bank On concept already has the support of the Atlanta branches of the FDIC and Federal Reserve Bank, several private organizations, and many large banks in the area.

Financial literacy education could be the lynchpin for making mainstream financial services accessible to low-income Georgians. An effective education program could be implemented quickly, even concurrent to more complex initiatives such as Bank On. Advocacy organizations that hold workshops and distribute informational literature could connect directly with target populations and positively influence their banking behavior.