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Eliminating Barriers to Bank Accounts

How CalAccount Can Ensure Financial Inclusion and Serve as a Model for Public Banking

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About the Roosevelt Institute

The Roosevelt Institute is a think tank, a student network, and the nonprofit partner to the Franklin D. Roosevelt Presidential Library and Museum that, together, are learning from the past and working to redefine the future of the American economy. Focusing on corporate and public power, labor and wages, and the economics of race and gender inequality, the Roosevelt Institute unifies experts, invests in young leaders, and advances progressive policies that bring the legacy of Franklin and Eleanor Roosevelt into the 21st century.

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Executive Summary

Millions of Americans lack access to basic, no-cost, no-fee bank accounts. The current banking system, with its high fees and inadequate and discriminatory services, punishes the most financially vulnerable and pushes some individuals out of the financial system entirely. This in turn drives individuals and families toward predatory alternatives that reinforce a cycle of financial precarity.

California has one of the highest concentrations of unbanked individuals in the country. In recent years, the state has led the nation in considering remedies to this problem that would guarantee access to free basic banking services for all. This study has two main aims. The first is to provide a rich qualitative picture of the exclusionary banking status quo in California and how it is affecting Californians—particularly Black, Latino, and Spanish-speaking service workers. Through a survey and a series of focus group discussions, we shed light on the multitude of barriers to financial system access in the state.

Our second aim is to analyze a proposal called CalAccount that is currently under consideration with the state legislature. CalAccount would serve as a retail banking option that offers voluntary, no-fee, no-penalty accounts to all California residents. By outlining the major areas of reform needed to remedy the challenges faced by the Californians in greatest need of better banking options, our intention is to inform the ultimate design and implementation of CalAccount.

The Problem: A Broken and Exclusionary Banking System

Our capitalist economy relies on private banks and other financial institutions to provide what is in fact a critical public service: free and unencumbered access to our money and fair participation in the systems that store and manage it. By retaining deposits and issuing loans to individuals and businesses, banks serve a function that is essential to economic stability for individuals, families, communities, and our macroeconomy as a whole. As such, the government has a vested interest in overseeing and regulating the banking system. Yet, in the past half century, the banking industry has been under-regulated. As private institutions, banks profit off of our money—not only via interest but also in recent decades by charging fees and fines on the most basic banking services. This disproportionately impacts Americans with the fewest resources and the least socioeconomic security.

Our current banking system bars the most vulnerable Americans from full economic participation and penalizes poverty for those who do manage to participate. Some 15 million families have little formal access to banking, and 5 percent of American households are unbanked entirely. These families are disproportionately low-income, Black, Latino, and single mother–led and have less formal educational attainment. In many cases, families simply can't afford to open and maintain accounts. Non-sufficient funds (NSF) and overdraft fees tend to affect users with the lowest balances and thereby target the individuals least likely to be able to pay them, if not prevent them from banking entirely (DiVito 2024; Kutzbach, Northwood, and Weinstein 2021). Meanwhile, low-income Americans who do bank often encounter discrimination in accessing basic banking services. Studies have repeatedly identified disparities both in policy and in practice for Americans of minority racial and ethnic backgrounds (DiVito 2022a). To take one example, traditional banks operating in predominantly Black neighborhoods tend to have higher initial opening deposits and minimum balances, adding a layer of racialized discrimination to the exclusionary practices of contemporary financial institutions (Pew Charitable Trusts 2014).

Access to basic checking accounts is a critical point of entry into full participation in an increasingly cashless economy. These accounts allow for check cashing, debit card transactions, bill payment, and, in general, secure and reliable access to money. They enable individuals and families to cover the kinds of frequent, short-term expenses that make daily life possible. When people are unable to access these basic services, they have few options but to turn to predatory nonbank alternatives such as check cashers, which charge even higher fees than traditional banks and come with both physical safety and financial security risks. Check cashers may charge as much as 10 percent of a check's total value (DiVito 2022a; Muniz 2022). A striking 14 percent of Americans find themselves reliant on these predatory alternatives—including underbanked individuals who have some, but insufficient, access to traditional banking (DiVito 2024; Kutzbach, Northwood, and Weinstein 2021).

Our capitalist economy relies on private banks and other financial institutions to provide what is in fact a critical public service: free and unencumbered access to our money and fair participation in the systems that store and manage it.

In addition to reinforcing the deep socioeconomic and racial inequalities in American society, these punitive and exclusionary practices at times fly directly in the face of government policy intended to help the most vulnerable. When the federal government issued stimulus checks in 2020 and 2021 in response to the COVID-19 pandemic, the most financially vulnerable Americans—individuals and families who did not have active bank accounts—waited months to receive paper checks by mail rather than direct deposits. Once they arrived, the recipients had no choice but to incur high fees from check cashers, not to mention missing rent, bills, and other costs in the meantime (DiVito 2022a; Baradaran 2020).

While the lowest-income Americans suffer under this regime, banks and other financial institutions are making enormous profits. Over the past decade, a few regulatory measures have made a notable difference in containing the abuses of the banking industry. The simplest have been reporting requirements and the attendant pressure on banks to do better. Only since 2015 have banks been required to report their overdraft earnings. In 2022, five of the seven major US banks eliminated NSF fees and eliminated or adjusted their overdraft fees (Horowitz and Liang 2022). Since 2023, the Joe Biden administration has also coordinated with the Consumer Financial Protection Bureau (CFPB) to further rein in a range of persistent "junk fees," including overdraft and NSF fees. These measures have resulted in some positive changes. Research from the Financial Health Network published in 2024 found that overall bank revenue from overdraft and NSF fees fell from an estimated \$9.8 billion in 2022 to \$7.9 billion in 2023. The 2023 sum was nearly half of the 2019 estimate of \$15.5 billion (Gdalman et al. 2024).

At the same time, however, banks continue to find ample opportunities to profit off of American families, in particular the most financially vulnerable. Banks are in an ongoing arms race with regulators and are constantly trying to innovate new fees, find loopholes, or lobby away troublesome restrictions. While overdraft and NSF income has fallen significantly over the past few years, annual bank revenue from account maintenance and ATM fees has increased by around \$1.6 billion since 2020 (Gdalman et al. 2024). Although this has not been enough to fully offset the decline in overdraft and NSF fees, it reflects the persistent role of fees as big business for banks. Meanwhile, irrespective of changes in bank policy and practice, household spending on deposit and transaction fees and services—including bank fees and nonbank alternatives such as check cashing—has remained more or less flat since 2021 (Gdalman et al. 2024). In the everyday practice of banking, all sorts of issues persist. Despite having eliminated NSF fees in 2022, Citibank has since become the subject of a class action lawsuit that alleges that it nonetheless improperly charged customers (Jewett 2024). Banks have also come under scrutiny recently for suddenly closing accounts when customers acquire multiple suspicious activity reports for large cash transactions or wire transfers with banks in high-risk locations abroad, often without any warning or apparent explanation (Lieber and Bernard 2023).

Access to basic checking accounts is a critical point of entry into full participation in an increasingly cashless economy.

Racial and income disparities in bank fees have likewise been incredibly persistent in the period since the pandemic. Overall, the burden of overdraft, ATM, and NSF fees continues to fall disproportionately on a specific subset of households. According to the Financial Health Network, households that paid one or more overdraft fees in 2023 were three times more likely to also pay a monthly account maintenance fee and more than one and a half times as likely to pay ATM fees, compared with households that did not incur overdraft charges (Gdalman et al. 2024).

The current problems with banking for the most economically vulnerable Americans are far from inevitable. After all, overdraft fees date only to the 1990s. Instead, these problems are outcomes of the deregulation of the banking industry that began in the 1970s and ramped up over the last third of the 20th century. Historically, a range of financial institutions, including thrifts and mutual aid organizations situated in particular communities, offered low- and middle-income Americans accessible basic banking products. But these kinds of financial institutions have declined in prominence since the late 20th century, in part because broader deregulatory efforts threatened their business models. Over the same time period, the shift away from tight regulation led to new efforts on the part of traditional banks to offset loss of profits stemming from new financial products. In turn, this encouraged banks to levy fees on basic bank accounts that were otherwise unprofitable due to their low average balances and frequent withdrawals (DiVito 2024).

Efforts to regulate private banks have long been, and are likely to remain, complicated. As powerful profit-making institutions, banks have historically resisted and circumvented regulatory efforts by looking for new avenues to profit (HR&A Advisors 2024; DiVito 2024). To effect the kind of sweeping change needed to challenge the foundationally exclusionary and inequitable practices of American financial institutions, we need both federal and state policy that explicitly guarantees the public's access to no-cost basic banking services.

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The various attempts to create public banking infrastructure at the federal level have not yet been successful. Under one promising proposal dubbed FedAccounts, the Federal Reserve would offer and operate no-cost, no-fee, no-minimum-balance accounts for all US residents (DiVito 2024; Ricks, Crawford, and Menand 2018). This would extend to the public the same services from which private banks benefit when they bank at the Fed. Among these benefits, instant payment clearing would significantly improve the banking experiences of low-income individuals who are currently penalized by overdraft fees when there is a lag in processing time between incoming deposits and outgoing withdrawals (DiVito 2022a; Ricks, Crawford, and Menand 2018).

Accounts backed and provided by the Fed could be made accessible to Americans via a postal banking system whereby individuals could bank at the country's 32,000 brick-and-mortar post office locations. In fact, in the early 20th century, the United States operated a popular and secure postal banking system. Beginning in 1911, a Postal Savings System allowed all Americans access to no-cost savings accounts at post offices. The system maintained its popularity through the Great Depression, when public trust in private banks, by contrast, eroded. It was discontinued in 1967 as public use ultimately declined in light of higher interest rates at private banks and new financial protections for private bank accounts via the Federal Deposit Insurance Corporation (FDIC) (DiVito 2022b). The combination of public trust for the Fed with the history of postal banking in the US, as well as the simplicity of the postal system's public infrastructure, makes FedAccounts a compelling idea (DiVito 2022a).

Yet, at the federal level, public banking has been a relative nonstarter. In practice, greater headway has been made at the state level. North Dakota is currently home to the only state-owned and state-run financial institution in the US. However, the Bank of North Dakota, which has existed since 1919, currently charges fees for basic accounts in keeping with the practices of private banks. In the wake of the 2008 financial crisis, a number of states, including Hawaii, Maine, Massachusetts, Oregon, Vermont, and Washington, conducted studies on the potential advantages and feasibility of setting up public banks. While these efforts confirmed the possible benefits of public banks, each state ultimately put policy development aside in light of fiscal concerns (Congressional Research Service 2022). Nevertheless, the issue hasn't altogether disappeared from state agendas. Since 2019, Hawaii, Massachusetts, New Jersey, New Mexico, New York, Oregon, and Washington have all considered inclusive banking legislation (DiVito 2022a).

CalAccount: A Promising Proposal for More Inclusive Banking

The state that has by far made the most headway toward public banking is California. In 2019, the state began to study the possibility of city-run banks, and in 2020, it extended this analysis to how state-run banks might facilitate greater access to financial services for the unbanked. In 2021, the California Public Banking Option Act established the CalAccount Blue Ribbon Commission to determine the feasibility of creating a CalAccount program. The state treasurer's office then commissioned a market and feasibility study from RAND, and the legislature is set to consider a final version of the CalAccount program in the legislative session beginning in January 2025. In its July 2024 report, RAND concluded that from the state's perspective, the potential benefits of instituting the proposed program outweigh the costs. This was particularly true with respect to disparities in access for Black and Latino Californians, which RAND concluded could be reduced by 25 to 30 percent, if not more (Welburn et al. 2024).

If instituted, CalAccount would offer voluntary, no-fee, no-penalty accounts to all California residents. It would be a statewide retail banking option that operates through existing private depository financial institutions contracted via the state. It would provide no-cost debit accounts, debit cards, and ATM access, plus direct deposit and automatic bill pay. Future legislation would determine which institutions the state will contract to provide services and how, in practice, they will do so. In any case, participating institutions would be mandated to provide fully free accounts with no minimum balance requirements, removing a key financial barrier to access.

It is no surprise that the question of financial inclusion has been particularly pressing in California. The state has one of the highest concentrations of unbanked people in the country: Some 2 million Californians live in unbanked households, and a further 5.5 million reside in underbanked households—defined as households that are banked but have used at least one nonbank transaction or credit product such as check cashing in the previous year (HR&A Advisors 2024). The Californians living on the lowest incomes—less than $15 per hour—comprise 81 percent of unbanked households in the state (DiVito 2022a; Bohn et al. 2023). Some 61 percent of unbanked households in the state earn less than $30,000 annually, and 41 percent of these earn less than $15,000 annually (HR&A Advisors 2024).

Compared to white households, Black households are 3.5 times more likely to be underbanked (HR&A Advisors 2024). California's large population of immigrant and undocumented families face language and, in some cases, legal status concerns that affect access to mainstream banking and as such are frequently targeted by nonbank financial alternatives such as check cashers (DiVito 2022a; Lin 2022). While current laws allow banks to use city IDs, foreign passports, and utility bills as forms of identification for opening an account, in practice banks often fail to offer this option. A notable 41 percent of noncitizens residing in California are unbanked or underbanked—nearly three times the rate for US-born citizens. And while single female–headed households comprise 12 percent of total households in the state, they represent 18 percent of unbanked and underbanked households (HR&A Advisors 2024).

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The Roosevelt Institute's 2022 secret-shopper *Banking for the People* study found an almost complete absence of no-fee, no-minimum-balance bank accounts at surveyed bank branches in California. Overdraft fee–based accounts were prevalent, and bank staff were reluctant to mention cheaper alternatives to potential customers even when they were available. Ethnic minority Californians and non-English speakers were treated differently than their white and English-speaking counterparts in bank branches and were less likely to receive the information they were seeking (DiVito 2022a).

More recent research on the banking status quo in California has confirmed this overall picture. In 2024, RAND found that no-fee and no-minimum-balance accounts are "rare in California." A whopping 95 percent of banks charge overdraft fees, and monthly account service fees are common. Underbanked Californians pay hundreds of dollars in fees per year. RAND estimated that on average CalAccount would save unbanked and underbanked households $70 to $150 per year in fees for financial services if adopted by these households. It would also increase household savings by an estimated $450 to $1,200 (Welburn et al. 2024). Feasibility research on the CalAccount program suggests that if all currently unbanked and underbanked California households had full banking access via CalAccount, Californians could collectively save more than $3 billion dollars annually, including $2.2 billion in deposit and transaction fees and close to $855 million in credit service fees (HR&A Advisors 2024).

Mapping Financial Exclusion in California and Designing CalAccount

Following up on our 2022 research in *Banking for the People*, this project set out to understand the ways that the exclusionary banking status quo is harming California's workers—particularly Black, Latino, and Spanish-speaking service workers who are disproportionately affected by punitive bank policies. The lived experience of banking, both online and in-person, affects Californians' access to needed banking services as much as official policies and procedures. By conducting a survey and a series of focus group discussions about these experiences, our study sheds light on the full extent of the barriers to financial system access that individuals and their families face.

The second major goal of our study was to analyze CalAccount as a public-interest banking solution that would offer a no-cost banking option to all Californians. By highlighting key areas of change needed to address the multiple barriers faced by those most in need of financial system access improvements, our hope is to inform final CalAccount design and implementation.

Our research provides a unique and valuable addition to the financial inclusion literature, which tends to focus on aggregated quantitative statistics. While such metrics are necessary and useful, they can obscure the full range of qualitative consequences facing the individuals pushed out of the traditional financial system. These include not only punitive fees but also a broader set of distinctive barriers to banking for low-income families: physical safety, travel and wait times, language and legal barriers, and issues of trust. By understanding the lived experiences of California's workers in rich qualitative detail, we offer something that quantitative approaches alone cannot.

Without this sort of comprehensive analysis, policymakers considering solutions to financial system access barriers may not adequately address financial inclusion for the most excluded and vulnerable populations. In the case of CalAccount, existing studies such as RAND's 2024 feasibility study have called for a richer understanding of the experiences of low-income Californians when it comes to finalizing program design. RAND noted, in particular, that more research is needed on the issue of trust and on community partnership in order to design CalAccount to reach the most vulnerable (Welburn et al. 2024). Our study begins to fill in those gaps while also pointing to areas of necessary policy change beyond CalAccount, including at the federal level.

Methodology and Survey Findings

In July and August 2024, we conducted an online survey in both English and Spanish. The purpose of the survey was to gather basic demographic data and gain preliminary insights into California workers' experiences of banking and with nonbank financial alternatives. The survey was not designed to be representative of working-class Californians. So, while the results offer an interesting snapshot, they cannot be straightforwardly generalized to the broader population.

We recruited survey participants in partnership with the Service Employees International Union (SEIU) and via outreach to a range of community and activist organizations across the state. Overall, 801 Californians responded to our survey. About 34 percent of the survey respondents completed the Spanish-language version. Of total survey respondents, 57 percent identified as Latino, 21 percent as Black, 16 percent as white, and a total 6 percent as mixed race, Asian, or Native American.

The vast majority—some 93 percent—of those who completed our survey had bank accounts. Among those with accounts, 72 percent reported having direct deposit for their paychecks. Although this seems to paint a fairly positive picture of financial inclusion, survey respondents reported being subject to the usual litany of fees. Of those with accounts, 54 percent said that they paid fees if they accidentally overdrafted—including bounced check fees and/or debit card overdraft. Almost half of banked respondents reported having a bank account that charges a monthly fee, and a third paid a penalty if their bank account balance drops under a minimum balance required. Around a quarter of respondents reported using check cashing services at least some of the time, suggesting that a significant percentage of our participants remained underbanked. Around a quarter of our respondents reported receiving some form of public assistance.

Compared to English-language survey respondents, Spanish-language respondents were slightly less likely to be banked and had notably lower levels of direct deposit. They were more likely to deal with monthly fees and minimum-balance requirements than those who took the survey in English. Survey respondents worked in a broad range of employment sectors. The largest percentages worked in education and health services, leisure and hospitality, professional and business services, and trade and transportation, or were not employed. Approximately a quarter of our survey respondents work in the fast-food industry. Fast-food workers were less likely to be banked and less likely to have direct deposit set up than our survey sample as a whole. Across all of our respondents, around two-thirds earned less than $3,000 per month, with a plurality of respondents—26 percent—earning between $1,500 and $2,000 per month.

After gathering basic information via a survey, we set out to gain a much richer understanding of low-income Californians' experiences of banking through focus group discussions. The aims of our focus groups were twofold: (1) to understand the landscape of financial access for low-income Californians, and (2) to explore the proposed CalAccount program as a way of addressing the inequities and failures of existing banking options for this vulnerable population.

We identified individuals interested in participating in the focus group discussions through the initial online survey. Online survey respondents were asked if they would be interested in discussing the topics highlighted in the survey in greater detail and when they would be available to do so. Participants were selected from survey respondents whose income was below $50,000 per year and represented a diverse sample in terms of geography, employment industry, race, and gender. We partnered with SEIU to organize and schedule the focus group discussions. Participants were informed upon recruitment that the focus group discussions would last approximately two hours and that they would receive a $100 gift card as compensation for their time.

In August 2024, we conducted 13 focus groups. The discussions were held either in English or in Spanish and in person or virtually. A total of 93 Californians participated in the study. Table 1 summarizes this information, along with participants' banking status. Some participants use financial technology tools ranging from money transfer apps such as Cash App and Venmo to neobanks such as Chime. We've summarized this diverse category, which includes individuals with and without traditional bank accounts, as "Fintech Users" in Table 1.

With permission from the participants, each focus group discussion was audio recorded. The audio recordings were submitted to a third party for transcription. For data analysis purposes, the 13 transcriptions were uploaded into Dedoose, a qualitative data analysis application. We coded the qualitative data following a four-level strategy. First, we organized data into discussion topics (e.g., "Banking Experiences" or "Exploring CalAccount"). Second, we organized data into subtopics (e.g., "Reasons to Have a Bank Account" or "Perceived CalAccount Benefits"). Third, we captured participants' reasons, thoughts, opinions, and reactions related to the subtopics (e.g., "Having a Bank Account Is a Necessity" or "Access to Banking"). Finally, we captured participants' experiences and the meaning they made of their experiences (e.g., "Places Don't Accept Cash" or "Help Undocumented People"). Upon completion of the coding, we summarized all of the themes that emerged from the data and the prevalence of each theme across the 13 discussions.

Almost half of banked respondents reported having a bank account that charges a monthly fee, and a third paid a penalty if their bank account balance drops under a minimum balance required.

Table 1. Summary of Qualitative Study Sample

Group	Location	Language	Total Participants	Banked	Fintech Users	Unbanked
1	Los Angeles	Spanish	8	8	0	0
2	Los Angeles	English	8	3	0	5
3	virtual	English	9	8	1	0
4	Los Angeles	Spanish	7	7	0	0
5	virtual	Spanish	5	5	0	0
6	virtual	Spanish	9	9	0	0
7	San Jose	Spanish	8	5	0	3
8	Sacramento	Spanish	10	10	0	0
9	Sacramento	English	7	6	1	0
10	Fresno	English	3	1	2	0
11	virtual	English	7	6	0	1
12	virtual	English	7	7	0	0
13	virtual	Spanish	5	5	0	0
		Totals	**93**	**80**	**4**	**9**

Findings: Barriers to Financial Equity Within and Beyond Traditional Banking

It’s generally taken for granted that people want and need bank accounts. Our study asked why and looked closely at the multiple barriers to full financial inclusion for low-income individuals and families. We asked about material, practical, and psychosocial barriers to banking access and explored the range of costs both within and beyond the traditional banking system when individuals are forced to turn to predatory alternatives. Access to basic banking services—through both fair policy and inclusive practice—is a foundational component of financial inclusion. Expanding bank access by challenging the interconnected obstacles to entry can and should be a mechanism for promoting financial security for low-income Californians and greater financial equity across the board.

Bank Accounts Are a Financial Necessity

In almost all of the groups we spoke to, participants expressed the desire to have access to traditional bank accounts. In 9 out of our 13 focus groups, participants described basic bank accounts as a necessity and spoke about how hard it is to navigate the mechanics of everyday life without these services. With fewer places accepting cash and the constant emergence of new technologies, having electronic access to money is essential to meeting basic transactional financial needs. As one participant in a Spanish-language focus group reflected: “I have a bank account, because nowadays it is necessary to have a bank account. Everything is handled now by paying by card, almost nothing is in cash anymore.” Banking is, at minimum, an important part of getting by.

In addition to facilitating everyday transactions, participants shared that basic banking services are key to managing their finances as a whole with ease. In every group discussion we conducted, participants talked about the value of direct deposit for simplicity of managing income, especially in accessing shared resources as a family. In almost all of the groups we spoke with, participants also spoke to the benefits of bank account access when it comes to paying bills, including via automatic bill pay. In almost all of our groups, participants shared the desire to build a credit history, which they viewed as a potential benefit of easier access to banking and reliable pathways to bill payment. Access to credit affects an individual’s ability to do everything from accessing loans to finding reliable housing. As one participant in a virtual Spanish-language focus group noted, “Nothing is done here if you don’t have credit.”

In 10 of our 13 groups, participants also spoke about the benefits of basic bank accounts for safely storing money. For one participant in a virtual Spanish-language session, having a secure place to keep money was his main reason for opening an account: “When I got the bank account, I just wanted to have it to put my money there.” Despite this important basic feature of formal banking, participants across nearly all of our groups also expressed anxieties about storing money in the bank and wondered whether keeping cash at home would actually be safer. A Spanish-speaking participant in our San Jose session noted, “I have had money in my house . . . I have somewhere to put it. Where I put it, it is there. Nobody touches it.” Participants’ main worries included the risks of fraud, digital account hacking, ATM scams, and, to a lesser degree, the potential for bank failures. Alongside the desire for secure and reliable financial access, our participants grappled with their unease in a system that they have long experienced as stacked against them.

Californians Face Material, Practical, and Psychosocial Barriers to Banking

Fees and Fines

Unsurprisingly, the financial costs of banking and the issue of fees were a major theme of our focus group discussions. In almost all of our groups, overdraft fees came up as a common and problematic banking experience. One Spanish-language participant in our Sacramento group described a familiar story. She had just started a new job. Before direct deposit took effect, she brought a paper check into her bank. There, she found out it would take five days to clear, and, in the meantime, her rent was due:

> Since it was the first time that they received this check from me, they made me wait a long time. I said, "But why? That's never happened to me before. Why now?" I called and they told me, "About five days." I said, "Where will my rent come from?" At that point they told me that they couldn't do anything. They charged me $200. This was a lot, and I still had to wait until they cashed that check.

Delays in waiting for money to clear accounts came up in nearly half of our focus group discussions. Our focus groups repeatedly conveyed the frustration that comes with overdraft charges, especially when associated with unavoidable delays. As much as these fees fuel economic precarity, they also feed a sense of fundamental unfairness and injustice for the low-income bank account holders we surveyed.

In addition to overdraft fees, balance requirements and below-balance fees came up in many of our group discussions. Likewise, when it came to these fees, participants conveyed both a sense of disbelief and a strong feeling of injustice about the system. One English speaker in Los Angeles told us that she used to have a savings account but had closed it: "I had to have a balance of $500 in there. And it was the type of balance where I had to have it there the entire time. I couldn't take any money out. So I didn't really see the point of having a savings account if I couldn't eventually use that money." Each time she withdrew money, for instance, in an emergency, the bank charged a maintenance fee. Over time, she watched her savings dwindle due to these fines. In nearly half of our focus groups, participants spoke about the ways in which requirements that are often opaque and hard to follow add insult to the injury of incurring insufficient fund fees.

While digital access to one's money is a necessary component of equal access to banking, our participants rely on cash, too. As one English-speaking participant in a virtual session told us, "If you're working class, a lot of what we do is done with cash. That's the way it's done." In this context, ATM fees, which charge a flat amount to users regardless of account balance or withdrawal amount, are particularly problematic for low-income individuals. ATM fees came up in a majority of our focus group discussions. One English-speaking participant who lives in a rural area told us: "When I use the ATMs, ATMs are charging me $4 to get $20. I'm like, 'I have to find different avenues or different ways to try to dodge the fees of these.'" Depending on location, these ostensibly small but recurrent fees make an important difference to individuals' spending money.

Accessibility

In addition to the financial barriers posed by fees and fines, our study found that low-income Californians struggle to access basic banking services due to a range of practical barriers, including immigration status and documentation as well as physical accessibility. In more than a third of our focus group discussions, participants spoke about challenges with identification when it comes to opening a bank account. While this was a minority concern in the demographic we spoke with, it represents a major barrier to access for California's newly arrived immigrants and undocumented community.

Under federal law, it should be possible for US residents to open bank accounts without a Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN). The Know Your Customer (KYC) laws require that banks do due diligence to show that they have sought customer identification, but, in practice, banks often default to asking for SSNs or driver's licenses when a foreign passport, municipal ID, or ITIN with a local utility bill should also suffice. Therefore, while undocumented immigrants theoretically have a legal avenue to bank account access, in practice, documentation requirements pose barriers—especially for those with transient housing and those who have been unable or, due to legal concerns, unwilling to interface with the Internal Revenue Service. Moreover, even with an ITIN, Californians report difficulty in opening accounts in practice.

One participant in a virtual Spanish-language focus group described in detail the challenges he had faced in trying to obtain a bank account as an avenue to building credit. In his words:

> I have not been able to open my credit because the problem is that they are demanding my Social Security number, and I am undocumented. I do not have any Social Security. The only thing I have is an ITIN. I have tried to do it through Wells Fargo, because thanks to my wife I have a debit account that belongs to both of us. I was trying to find a way to build up my credit and see if I could get it to make my life easier. Believe it or not, in an emergency, the credit card gets you out of trouble.

For this participant and many others, the ability to access basic banking services is strongly correlated with a sense of security and capacity to navigate future needs.

Practical barriers to accessing basic banking also come in a more physical form. For a small number of participants we spoke with, the limited availability of in-person banking in their area posed a challenge. In rural areas, as well as in banking deserts in more urban locations, this minority concern becomes a bigger issue. According to 2024 research, some 70 percent of census tracts in California have no physical banking outlets, and a further 15 percent have only one. In addition, cities have large contiguous areas with limited banking options (Welburn et al. 2024; HR&A Advisors 2024). In practice, this can mean the difference between someone having and not having a bank account.

Participants also spoke about long wait times for in-person services in more than a quarter of our focus groups. In some cases, they associated long wait times with the absence of adequate online services and customer support. In other cases, they expressed awareness and resentment that bank branches in wealthier communities seemed to be better staffed and resourced. A participant in an English-language group in Sacramento shared: "I was working in San Francisco in a privileged area, and it was a Friday, and I needed to cash my check . . . And I'm like, 'Okay, why are all the tellers here, but if I go somewhere else, there's going to be two tellers with 20 people standing in line?'"

Account Closures

Sometimes having an account alone isn't enough to ensure ongoing access to basic banking services. In almost a third of our focus group discussions, participants talked about banks closing their accounts, often after issues related to fees and minimum-balance requirements. In a quarter of focus groups, participants specifically spoke about banks closing their accounts without any explanation. One English-speaking participant in a virtual group described a recent experience with Bank of America:

> I used their digital mobile cashing for a check and accidentally put the wrong number in. It was a very small deposit, around $19. But I think I wrote $16 and deposited $19. And those two things didn't match, so they closed my entire account for that. Like, no discussion, no appeal, no anything. And it took a month to get my money back. Everything bounced.

For this participant, the feeling of being arbitrarily penalized fed a sense of frustration: "So yeah, not a huge bank fan. But, you know, we do what we gotta do." Over time, the experience of multiple negative banking experiences creates distrust.

Vulnerability, Discrimination, and Distrust

Across our conversations with focus group participants, fear and distrust surfaced as major themes. Beyond material and physical barriers to access, the low-income Californians we spoke to also suffered from what are often well-founded perceived risks of entering the financial system in a vulnerable position. In most groups we talked to, participants expressed distrust of banks. A participant in a virtual English-language focus group shared: "For me, there's lack of trust . . . due to previous negative experiences, or just having previous bank issues . . . account closures due to overdraft or low balances." Another English-language participant, who works as a bus driver in Fresno, told us simply, "I don't trust them at all." A range of negative banking experiences, including account closures, lack of answers and explanations for changes or policies, and issues of fraud, came up in group discussions. In more than half of our groups, participants referenced lost money related to account and overdraft fees or other account problems. Perhaps most strikingly, in more than half of the groups we spoke with, participants spoke about the need to be vigilant in checking their bank statements and monitoring accounts to keep a tab on low balances that are vulnerable to fees.

In some cases, experiences of overt discrimination shaped our participants' distrust for banks. Almost a third of our groups touched on experiences of racism. One English-speaking participant in a Sacramento group described a memorable instance of being scrutinized as a Black woman depositing a check in her bank branch. She came into the bank wanting to cash a check but encountered staff who seemed to think her check couldn't be authentic. As she recalls: "All of these things made me feel like, 'Am I doing something wrong?' No, this is *my* money." In this context, where the experience of racism is layered on top of basic financial and practical barriers to entry, it was unsurprising to hear our participants reflect animosity toward banks. More than half of the groups we spoke with expressed a preference for credit unions as opposed to banks and talked about how banks make money off of customers' money. In almost a third of groups, participants indicated that they feel banks do not share financial rewards with their customers. Although many credit unions charge overdraft and insufficient funds fees, they have a comparatively stronger track record of trust with low-income Americans (NCUA 2024; Klein 2023).

Risk

In nearly a third of our focus groups, participants expressed outright fear of banks. They spoke about a range of anxieties that come less directly from negative experiences in banking, as described above, and more from a sense of precarity, financial risk, and lack of agency and control in general. The generalized distrust in the banking system among the financially vulnerable Californians we spoke to stands out as one poignant legacy of the long history of predatory behavior by private financial institutions.

In nearly half of our groups, participants talked about the potential for big financial crises that could affect their money if held in the bank. In a similar number of sessions, people spoke about fear of cybersecurity attacks and identity theft risks. From the perspective of many of the low-income Californians we spoke with, the experience of banking is inflected with a sense of fundamental unease.

Check Cashing Is Not a Viable Alternative

If the traditional banking system is punitive, onerous, and in some cases totally inaccessible to low-income Californians, the landscape of alternative options is bleak, at best. Rather than taking for granted, though, that alternatives to traditional banking are always experienced as predatory, we asked focus group participants to talk us through why people use these services and what they have to offer. Our groups largely viewed check cashing as a necessary evil that fills the financial system gaps for the most vulnerable population: people who, due to immigration status and documentation issues, former incarceration, or lack of knowledge and wherewithal, have limited access to bank accounts.

Check Cashing Fills the Gaps in a Broken System

Our focus group participants have relied on check cashing for one thing above all: quickly accessing their money. With delays in check clearing time at banks and inaccessible bank locations and hours, participants shared that check cashing was a way that they could access money fast when needed. As one Spanish-speaking virtual participant explained, "Sometimes out of necessity you need emergency money, you need to pay a bill. There are exchange houses that are open 24 hours a day, at any time you can go and cash your check, and they will give you the money right away." Emergencies and unexpected needs came up frequently in focus group discussions. Another Spanish speaker in Los Angeles explained:

> Since I am a single mother of four, sometimes I have an accident, I have a child with autism . . . PLS [a check cashing service] is three blocks from my house . . . If something happens . . . and everything is already closed, I have no one *else* I can turn to at this time, I quickly go there, grab the money . . . sometimes those are the things one has to do.

For financially vulnerable Californians, check cashing is an important work-around service, even if it comes at a steep cost.

In several focus groups, participants referenced relying on check cashing specifically to circumvent bank account overdraft fees, even if steep check cashing fees were the consequence. A participant in our virtual English-language group told us, "I used them when I used to overdraw my account and maybe had a check that I needed to cash, because if I put the check into the account, the fees would have taken it all."

While for some low-income Californians check cashing serves as a temporary work-around, for others it's a substitute for banking entirely. In most of our discussions, participants emphasized that whereas traditional banking requires forms of identification and documentation, check cashing does not. A virtual Spanish-language participant described her family's use of the service: "Before my husband got his papers in order, he took our checks and also had to cash them there." For recent immigrants, check cashing is often simply the only option. A participant in our Spanish-language focus group in Los Angeles noted: "Those who live with me cannot open an account because they do not have any documents that show their name." For both newly arrived and undocumented immigrants, check cashing is a survival strategy.

Check Cashing Is Risky

While recognizing the importance of check cashing for certain situations and individuals, our focus group discussions repeatedly turned to the risks and predatory nature of these services. Nearly every group we spoke with touched on the issue of high fees. One Spanish-language participant in Los Angeles put it plainly: "They charge you dearly. I used it many years ago, when I just arrived, and they took a good part of that money from you." In addition to high fees, participants shared that information about fees is not always forthcoming. In some cases, participants also reported feeling pressured to buy in the store where they had cashed the check or not being informed that this was optional.

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Across the board, groups gave the impression that they see check cashing services as preying on the vulnerable. Alongside steep fees, participants referenced safety risks. Almost a third of our focus group discussions mentioned robbery as a risk that comes with cashing checks at what are often undesirable locations, including late at night. In general, participants described check cashers as "confusing at best, dodgy at worst" and referenced the general risks associated with dealing with financial transactions outside of well-regulated institutions.

In some instances, participants shared a sense that the predatory risks were especially pronounced for those who, because of immigration status or very old or young age, had an incomplete understanding of how the relevant systems worked. A participant in a virtual English-language focus group talked about using check cashing when he was young and being charged a fee of 7 percent: “I’ve never done it since. It just seemed like a rip-off. It seems like they prey on the young that are either undocumented or don’t have a bank account . . . people going through a tumultuous divorce or whatever. It’s usually people that are desperate. When I was young, that was all I knew. I didn’t have a [bank] account at the time.” On the whole, focus groups were less interested in talking about the question of trust for these kinds of institutions that seem, by definition, untrustworthy.

The Costs and Benefits of Fintech: “I’ll Rock with Chime”

Participants frequently mentioned digital money transfer apps such as Cash App and Venmo and neobanks such as Chime in our focus group discussions. In particular, Chime, which partners with regional banks to provide some no-fee mobile banking services, came up repeatedly. In nearly a quarter of our discussions, participants mentioned that they preferred Chime to traditional banking. One English-speaking participant in Sacramento shared that with Chime, she’s able to access her paycheck via direct deposit a day earlier than via a traditional Bank of America account. As she put it, “I don’t like banks, but Chime, I’ll rock with Chime.” For other participants, Chime afforded easier access to credit than traditional financial institutions. An English speaker in Fresno told us she liked Chime because it didn’t require a credit check to open a new line of credit.

Our participants’ enthusiasm for Chime and other fintech alternatives to traditional banking reflects the ways that new entrants to the banking sector have addressed a number of the punitive features of the existing system for low-income Californians. Chime offers early access to paychecks and allows users to hold negative account balances without incurring overdraft fees. There are no minimum balance requirements. It also facilitates peer-to-peer payments and offers users interest-free credit cards without credit checks. Chime also offers small temporary loans in the event of overdrafts and a grace period to deposit cash before a fee is incurred. Despite these advantages, Chime is not a bank and as such is not FDIC insured, rendering it higher risk. Meanwhile, the company has repeatedly come under scrutiny for abuses. In 2021 and 2022, Chime canceled accounts without notice or explanation, and in some instances failed to return customer money (Kessler 2021). It was later fined in 2024 for inappropriate handling of customer complaints (Lang 2024).

Moreover, Chime doesn’t provide the brick-and-mortar infrastructure that many people want and need. As one English-language participant in our Sacramento focus group noted: “Most people don’t like to go digital. If you’re talking about keeping it to where people can have that contact, I want to see my money being handed to me. I want to know who's handling my money." While fintech has introduced some positive features to a market that is stacked against low-income customers, ultimately, like traditional banks, these private institutions have profit-making at their heart. Meanwhile, like traditional banks, these newer entrants to the market have also been called out for inadequately serving low-income communities of color (Friedline and Hamilton 2024).

Designing CalAccount: Shaping the Program to Facilitate Equity for Low-Income Californians

Our study had two central aims: to understand the landscape of financial access for low-income Californians of color and to assess the proposed CalAccount program as a way of addressing the inequities and failures of existing banking options for this vulnerable population. In our focus groups, we presented participants with a description of the proposed CalAccount program and solicited their questions, concerns, and feedback. Drawing on these concerns, we propose policy and implementation suggestions to ensure that, if implemented, CalAccount is aligned with the needs of California's most financially vulnerable.

Considerations for the CalAccount Program

In general, our focus groups conveyed interest in the proposed CalAccount program. In 10 of 13 focus groups, participants said that they would try opening an account if the program comes into effect. Among the potential benefits of enrolling, participants cited one above all: not worrying about fees. The absence of fees came up as a key advantage of the proposed program in almost all of our groups. In nearly half of our groups, participants also spoke about the benefits of the government playing a role in the security of CalAccount as a banking option. A few groups mentioned further benefits like direct deposit and paying bills when it came to the potential value of CalAccount.

While some participants in most of our groups said they would consider opening a CalAccount, participants in a majority of groups also shared that they would want to learn more before deciding. In almost a quarter of groups, participants said they would be interested if there really are no fees—suggesting a degree of disbelief about the possibility of a program that isn't stacked against them. In most groups, participants indicated that they felt it was possible that fees would still spring up. One participant in a virtual English-language group summarized his concern as follows: "I really feel insecure just because of things that I've seen in the past. I know nothing is ever for free. I've learned that. Nothing is ever for free. . . . This is going to come with a price. We just haven't seen it." Participants in nearly a quarter of groups asked what minimum balance would be required to open the account. In almost a quarter of groups, participants shared the sentiment that ordinary people would pay for the program, one way or another. Among those who felt they would not choose to open a CalAccount, reasons included that they didn't feel the need or were fine with their current options.

A number of concerns beyond the theme of lurking fees came up across our discussions. The most important among these was the question of eligibility. In the vast majority of focus groups, participants asked what eligibility requirements CalAccount would have. They wondered who would be considered a Californian, whether legal documentation status would be required, and whether a Social Security number would be needed to open an account. The questions, especially in our Spanish-language groups, reflect a deep sense of the barriers to banking inclusion for the undocumented.

Participants also shared questions about credit and access to loans. They wondered whether the program would offer credit cards and whether it would offer loans—both in general and in the specific instance of overdrafts. Participants view banking as more than just a mechanism for accessing and transferring money; they see it as the entryway to credit, housing, and more. Furthermore, participants wondered if the accounts would be FDIC protected. They were interested, too, in whether the program would include access to both digital banking and brick-and-mortar services.

Among the potential benefits of enrolling, participants cited one above all: not worrying about fees.

Across these discussions, questions of trust were prominent. This appears to corroborate RAND's finding that trust "will be a key barrier to overcome for CalAccount to succeed" (Welburn et al. 2024). In almost two-thirds of groups, participants asked which banks would participate in CalAccount in partnership with the state. In nearly half of focus groups, some participants viewed the fact that private banks were still involved in this public option—albeit in partnership with the state—as a drawback of CalAccount. A virtual English-language participant summarized the sentiment: "The Wall Street banks already have enough power." In general, participants expressed far more distrust for private banks than the state as such.

Nonetheless, trust also came up in a number of ways in regard to CalAccount as a government program. The most prominent concern was associated with privacy and the worry that the program would afford the state undue insight into individuals' personal finances and circumstances, potentially disrupting access to state benefits. In nearly a third of groups, people emphasized that the government knows everything. In almost a quarter of groups, participants mentioned that the government could take people's money.

In a handful of groups, participants expressed concern that people receiving public benefits could be tracked via the program. In the context of the pending change of presidential administration, this concern will likely only become more significant—particularly for California's large immigrant community. As a Spanish speaker in Sacramento explained: "Maybe they are going to be checking us, they are going to know how much they give us. If someone retires, they will know." While banking with a state institution was largely seen as a favorable alternative to exclusionary private banking, low-income Californians of color have a multitude of reasons for unease and distrust.

Making CalAccount Work for Financially Vulnerable Californians

With the California legislature set to finalize program design for CalAccount in early 2025, we presently have a unique opportunity to shape the direction of the program to best serve the most financially vulnerable Californians. Beyond the basic steps of eliminating all potential fees, our focus groups point to a number of ways that legislators can design CalAccount to maximize the potential benefits for all, especially for low-income Californians and Californians of color.

Partner with Multiple Trusted Institutions

The state should partner with multiple institutions in implementing CalAccount. In a majority of our focus groups, participants mentioned having multiple bank accounts or keeping their money in multiple different places. For a demographic that the existing financial system has repeatedly failed, having options, including the perceived option of diversification, matters.

CalAccount is designed as a public-private partnership. The state of California will hold money in a trust but rely on independent financial institutions to provide the mechanism for consumers to access money. Selecting the best partners based on expertise, track record, and values is key to ensuring the program's success. Potential partners could include large banks with extensive card and payment networks, credit unions that have a track record of tailoring programs to specific populations, and neobanks, which currently dominate the market for zero-fee digital accounts (HR&A Advisors 2024). The state should also choose a combination of providers to tailor the optimal set of services.

While those we spoke to tend to distrust private banks, they have a more favorable view, as we have seen, of both credit unions and digital neobanks. Partnering with credit unions and newer fintech entrants, and selecting multiple partner institutions, may strengthen buy-in to the CalAccount program on the part of low-income Californians of color.

Minimize Documentation Requirements

The state treasurer's office noted that the proposed CalAccount program should facilitate account access for individuals who lack stable housing and who may not have government-issued identification (HR&A Advisors 2024). In our Spanish-language focus group in San Jose, participants discussed the difficulties some immigrants face in even having a passport from their home countries. While they can apply for one at their countries' consulates general, this can be financially out of reach for some, or they may not have the documentation they need. By allowing Californians to open accounts using a maximally broad range of potential forms of documentation, the state can bring undocumented immigrants into the system without the barriers associated with SSN and ITIN access. Having minimal documentation requirements will significantly reduce the barriers to entry into the financial system for California's immigrant community.

Provide Excellent Physical Infrastructure and Services

A physical network of banking locations and in-person services that meet the needs of low-income Californians is key to the CalAccount program's success. Low-income Californians face a range of challenges in accessing banking services that may bar them from traditional banking: inaccessible banking locations or long travel times, extended wait times, limited hours, a lack of bilingual services, and discrimination on the basis of race, ethnicity, and immigration status. CalAccount has the opportunity to remedy these issues and create a physical infrastructure that genuinely serves the public.

Access to ATM networks and bank branches via participating institutions that are contracted by the state will provide some but not all of the necessary physical infrastructure. In rural areas, the state can consider well-researched proposals such as using the post office network and/or municipal buildings as banking access points. Another possibility is to create mobile bank branches via traveling vans (Welburn et al. 2024; Picciotto 2023). To ensure accessibility, banking locations will need to offer extended hours and be staffed adequately, including with both culturally sensitive and bilingual tellers.

Offer Digital Banking Services

In addition to a robust in-person infrastructure, Californians want and need access to virtual banking options. According to RAND's recent research, almost 4 in 10 unbanked Californians, and three-quarters of underbanked Californians, already use mobile online financial services (Welburn et al. 2024). Ensuring that partner institutions offer the best available access to digital banking services will promote buy-in. This may also encourage the use of digital banking options that do allow for the consumer protections not currently offered via high-risk private digital banking services that are not fully FDIC insured.

Include Instant Payments

Delays in payment processing are a major concern for the low-income Californians we spoke with. CalAccount presents the opportunity to mandate faster payments and give account holders quicker access to their money. In addition to ensuring that people have quick access to their funds, which is critical in emergencies, the service would allow customers to make routine payments without delays or obstacles (Welburn et al. 2024). By partnering with financial institutions that use fast payment systems, the state can maximize the benefits of the CalAccount program for the most financially vulnerable.

Provide Resources for Improving Financial Well-Being

Although CalAccount will not issue loans or credit, it can and should help financially vulnerable Californians improve their credit scores. California has recently taken measures to support the state's residents in improving their credit scores. In September 2024, Governor Gavin Newsom signed into law a bill that requires landlords to offer tenants the option of reporting their positive rent payments to a credit bureau agency in a bid to create new pathways to boosting credit (Ramos 2024). However, because few organizations currently use the credit scores that incorporate positive rent payments, it may be a decade or more before the potential benefits of this change are realized. Nevertheless, CalAccount can and should seek opportunities to contribute to these efforts.

Meanwhile, the CalAccount commission should monitor the private market for good loan and credit terms. By establishing criteria for good loans and credit options and encouraging banks to agree to certain standards on loan products, they could then publish a list of CalAccount-approved lenders, providing further on-ramps to financial inclusion beyond the immediate purview of the program.

Build Community Trust Through Focused Outreach

Perhaps more than any other concern, building trust through community buy-in will be a critical part of the CalAccount program's success. This is especially true because the program is designed as a partnership with private banks, which the most financially vulnerable Californians tend to view unfavorably. The goals of outreach should include communicating that the program is and will remain completely free of fees, will maintain consumer privacy, and offers a full range of options, including in-person and online banking, instant payments, and more.

In a few of our focus groups, participants referenced the potential value of starting with a pilot program for target populations, such as the elderly or individuals recently released from prison. While this may not be necessary, finding ways to publicize

CalAccount and promote its potential benefits will be (Welburn et al. 2024). In more than half of our focus groups, participants felt that the state could reach potential participants via unions and educational institutions. Some groups also mentioned social media, television, churches, politicians, and billboards and flyers as useful avenues of publicity. In a couple of groups, participants mentioned word-of-mouth, radio, and public service offices, too.

The Limits of CalAccount and the Need for State and Federal Policy Change

If designed and implemented with the interests of the most financially vulnerable Californians at its heart, CalAccount will offer a robust solution to many of the most pressing barriers to financial access: high fees, onerous documentation requirements, and difficulties in accessing services. Nonetheless, for a small number of Californians, there may be obstacles to traditional banking that the program alone cannot solve.

Interfacing with Benefits Programs and the Problem of Asset Testing

California presently has more than $1.5 billion in active contracts with private institutions to provide financial transaction services and card management. Multiple state-level cash benefit programs, including CalFresh and CalWORKs, depend on these private channels for distribution. CalAccount could consolidate some cash benefit programs that are currently disbursed separately, such as unemployment insurance and aid for foster families, streamlining and the existing state process. According to one recent analysis of the CalAccount program by HR&A Advisors, time savings involved in such a consolidated system could lead to faster welfare benefit disbursal, benefitting both the state and welfare recipients. Recipients with CalAccount accounts would also be spared a process of time-intensive identity verification. Moreover, a single integrated system would preclude the investment of additional time and money in creating new disbursement systems for new programs as they emerge—to name one recent example, COVID-19 relief (HR&A Advisors 2024).

If the consolidation of state benefits accounting represents a potential advantage of CalAccount, it may also pose challenges when it comes to both state and federal benefits and the issue of asset testing. Our focus groups revealed that people receiving public benefits may have unique concerns regarding banking. Eligibility for many public benefits is based on income and asset limits set by local, state, or federal entities. Depending on how the relevant agencies calculate income and assets for a given benefit, money held and interest accrued in CalAccount accounts could affect recipients' eligibility.

In one of our virtual English-language focus groups, a participant who works as a childcare provider told us that she didn't have a bank account because she receives federal Section 8 housing benefits, which provide rental housing assistance to low-income households. Although she most likely could have had an account without any issue due to the high asset limit in this case, her concern led her to take a better-safe-than-sorry approach. In her words: "It's only like a certain amount you can save in an account really. You can't save too much." If the aim of CalAccount is to promote financial inclusion for the most financially vulnerable Californians, the program will need to reckon with the possibility that holding money in any bank account, to say nothing of a state-backed account, may deter benefit recipients from participation—in some cases even based on misunderstanding of eligibility requirements for specific state or federal benefits.

The state should consider eliminating asset limits for all public benefit programs, as was recently achieved for Medi-Cal programs (DHCS 2024). Many states are in the process of eliminating asset testing for programs including Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF). Where asset tests are not eliminated entirely, raising asset limits or crafting exclusions around counting certain assets—for instance money held in a CalAccount account—would enable welfare recipients to continue to receive benefits while also encouraging the use of bank accounts. Asset and income limits are highly specific and different for each program, so programs would need to be considered individually. While the CalAccount program could not in and of itself address issues around asset testing, the program could be implemented with confidential ombudsmen to answer Californians' questions surrounding eligibility and any concerns about overlap with public benefits.

Managing Distrust and Anxiety Around State Debt Collection

In addition to the landscape of public benefits and asset testing, our focus groups highlighted the need for reassurance that the CalAccount program will not become a convenient aid to state debt collection efforts. In an English-language focus group in Sacramento, participants raised the issue of wage garnishment. Reflecting on the proposed CalAccount program, one participant worried that it would allow the state to directly take money for fees or other debts that participants might prefer to defer:

> Let's say . . . your car registration is due, and you might be like, okay, I'm going to pay this a little bit later. Will the state be able to just . . . take all your money?

In the historical context of state debt collection efforts, this concern is perhaps not so far-fetched. Designing CalAccount to support the needs of financially vulnerable Californians depends on reassuring citizens that there will be a firewall between CalAccount and any state debt collection program.

Conclusion

Access to basic no-cost, no-fee banking accounts is a critical public service. Through high fees and inadequate and discriminatory in-person services, the current banking system disproportionately burdens the most financially vulnerable. It punishes if not entirely excludes millions of Americans and pushes individuals and families toward predatory nonbank alternatives that charge even higher fees and reinforce a cycle of financial precarity.

California has one of the highest concentrations of unbanked individuals in the country. Our study offers a rich, qualitative picture of the persistent barriers to banking access in the state. In addition to minimum-balance requirements and punitive fees, we highlight the unique challenges surrounding identification for immigrants, experiences of racism, and issues of trust and animosity among those historically excluded from affordable banking.

Fixing this system depends on new public-interest options designed with inclusion of the most financially vulnerable in mind. The CalAccount program represents one promising approach to expanding access to banking within California. The program seems particularly likely to improve the lives of low-income Californians—both unbanked and underbanked.

While many aspects of the American financial system need reform and CalAccount cannot solve every problem, it can and should be one powerful tool in the state's efforts to make banking easier and more accessible for all. Ultimately, to reach the most financially vulnerable residents, CalAccount's success will depend on reform to the welfare benefit system and public debt collection at the state and possibly federal level. It will also depend on sustained efforts to build community trust—particularly given the participation of private financial institutions in the public-private partnership model represented by the program.

Policymakers should explore the possibility of instituting a FedAccount system and postal banking infrastructure at the federal level to complement no-cost, no-fee account programs such as CalAccount. This would ensure a pathway to financial inclusion not just for all Californians but for all Americans. It is our hope that CalAccount can serve as a model for further reform.

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