LOW AND MODERATE INCOME CONSUMERS WITH AND WITHOUT CHECKING ACCOUNTS: A COMPARISON

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As banks are deregulated and receive expanded powers to enter new markets and lines of business, it is important that consumers maintain access to basic banking services. This study focuses on the availability of affordable checking accounts, bank policies on cashing checks for non-depositors, identification requirements to use banking services, and the fees and practices of check cashing businesses. It was done by the Virginia Citizens Consumer Council, a statewide consumer advocacy organization that represents consumer interests on legislative and regulatory issues, as a report to a state legislative subcommittee. The project was supported by a state and local grant of the Consumer Federation of America.

Data were collected in July and August, 1989 through individual interviews with 308 randomly selected consumers at twenty-nine sites across the state. Five area agencies on aging, two community action programs, nine Cooperative Extension Service Expanded Food and Nutrition Programs, two military financial counseling services, and two church groups participated. Those interviewed were either the head of household or managed the family finances.

Preliminary results indicate that there are definite differences between consumers who do and do not have checking accounts. Seventy-three percent of those interviewed are below the poverty line. Fifty-four percent of respondents without checking accounts have monthly incomes of less than $416 and 31% have monthly incomes between $416 and $833. Those with checking accounts have higher monthly incomes; 29% earn between $834 and $1,666 each month, and 14% earn more.

One third of each group receive income from wages. Of those with checking accounts, 26% receive pensions and 52% receive social security benefits. Only 2% of those without checking accounts receive pensions and 15% receive social security benefits. However, 34% receive income from Aid to Families with Dependent Children and 34% receive Food Stamps.

Those without checking accounts have larger households, are younger (under age 50), less educated, and more likely to be female and/or black.

Sixty-five percent of each group have a current driver's license or non-driver identification. Those with accounts tend to have significantly more forms of identification such as credit cards and senior citizen cards.

Consumers with checking accounts generally have had them for more than five years (65%) and 81% have accounts with banks. Only 14% have free or low cost accounts. Forty-five percent must keep an average balance to avoid fees ($\bar{x}$ = $346). Forty-one percent do not know how much the fee is. Reasons for selecting banks include: convenient location (56%), affordable fees (22%), good service (12%), convenient hours (5%), and feeling welcome (3%). Most of these consumers cash checks where they have an account (84%) or in stores (20%). Ninety-one percent have never paid to have checks cashed. The two percent who pay to cash checks pay an average of 10% of the value of the check or $.64.

About half of those without checking accounts have ever had them. Reasons for not having accounts include: can't save enough to open an account (46%), can't afford fees (23%), too hard to manage (18%), can't risk overdrawing (14%), don't need one (13%). These consumers most often use banking institutions (53%) and stores (41%) to cash their checks. Consumers also use check cashers (7%), friends and relatives (5%), landlords (3%) and employers (3%). Twenty-one percent of these consumers pay an average of 14% of the check, ($\bar{x}$ = $3.32) to cash checks. Nearly half (45%) spend part of the check at a store so that it will be cashed (an average of 17% or $15.83) Twenty-seven percent report that they sometimes or frequently have trouble cashing checks. Nine percent of these consumers were robbed of cash in the last two years and 54% pay bills in cash.

Lack of access to affordable banking services is a problem for low and moderate income consumers. Those without accounts encounter additional costs, inconvenience, and risk in getting checks cashed, paying bills, and keeping cash safe. The reasons most often given for not having accounts match checking account requirements that banks can change to make their services more accessible to this sector of the community. These features include minimum deposits, monthly fees, and overdrawn check charges. Arbitrary identification requirements are a barrier to use of checking accounts. Roughly three-fourths of those without accounts can show one form of picture identification, but they cannot chow a credit card or job ID. The types of identification that these consumers have do not match well with the types most often required by financial institutions. Consumers who have accounts have had them a long time and are not using the low-cost or free accounts that banks offer. Financial institutions should be forced to make low cost services more available and to notify customers who qualify for such accounts of their availability.

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