

Date of Hearing: April 21, 2025

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Avelino Valencia, Chair

AB 1365 (Garcia) – As Introduced February 21, 2025

SUBJECT: CalAccount Program

SUMMARY: Establishes the CalAccount Program in the State Treasurer's Office, which will partner with a commercial bank to offer a federally insured no-fee and no-penalty debit account with a debit card.

Specifically, **this bill:**

- 1) Requires a landlord or a landlord's agent to allow a tenant to pay rent and deposit of security by an electronic funds transfer from a CalAccount.
- 2) Repeals the CalAccount Blue Ribbon Commission and establishes the CalAccount Program.
- 3) Defines terms.
- 4) Changes the CalAccount Blue Ribbon Commission to the CalAccount Commission (Commission) with the following responsibilities, powers and authorities:
 - a. Assume the responsibility and duty to meet the requirements of this title and all applicable state and federal laws and regulations.
 - b. Establish, oversee, and manage the CalAccount Program,
 - c. Serve the interests of program accountholders and those seeking to access financial services and debt management tools through the program.
 - d. Serve the public interest and pursue partnerships and credit unions and other local financial institutions.
 - e. Ensure the operational well-being and fiscal solvency of the program.
- 5) Additional powers and authority includes:
 - a. Elect to delegate some oversight duties to the State Treasurer's Office as appropriate. (100104 (b))
 - b. Balance any tensions between the core policy goals of the program with practical considerations as they arise.(100104 (c))
 - c. Make and enter into contracts and engage personnel as needed to administer the CalAccount Program. (100104 (d) (1))
 - d. Accept deposits to the program fund from any public or private source.
 - e. Procure indemnification insurance

- f. Collaborate with partners to effectively implement the program and expand outreach, literacy, and empowerment.
- g. Employ staff and pay program expenses from the fund or arrangements established under the program.
- h. Engage in outreach to potential accountholders.
- i. Exercise any and all other powers as appropriate for the effectuation of the purposes, objectives, and provisions of this title.

6) Requires the Commission to be composed of nine members, serving at the pleasure of their appointing authority, and the Treasurer serving as Chair of the Commission.

- a. Members shall be reimbursed for travel expenses in connection with their commission duties
- b. Includes conflict of interest prohibitions for members and Treasurer's staff working with the commission.
- c. Decisions of the commission shall be made by a majority vote. (100103 (g))

7) Establishes the CalAccount Program, administered by the Commission, to increase access and designed to protect consumers who lack access to traditional banking services from predatory, discriminatory, and costly alternatives.

- a. Achieve the policy goal to provide every California resident with voluntary access to a zero-fee, zero-penalty, federally insured transaction account, including tools for fund access and automated financial transactions tailored to low- and variable-income users.
- b. Requires employers to facilitate employee enrollment, integrate payroll systems with CalAccount, and honor employee direct deposit elections without restriction.

8) Directs the Commission to establish a set of program goals which shall include:

- a. Providing accountholders maximum access to funds, including robust and geographically diverse mechanisms for accessing account funds.
- b. Maximizing accessibility of the program by facilitating the opening of a CalAccount by individuals, including those with the following characteristics:
 - i. Are under 18 years of age, including individuals who are at least 14 years of age without a cosigner or guarantor on the account, consistent with all applicable laws.
 - ii. Are unhoused or otherwise do not have permanent housing.
 - iii. Lack government-issued photo ID but possess alternative documents sufficient to meet federal Know Your Customer requirements.

- iv. Have been, or are currently being, subjected to domestic violence, sexual assault, human trafficking, or stalking.
- c. Minimizing unfair account denials and providing an accessible process to appeal rejections.
- d. Minimizing costs to merchants accepting CalAccount for payments.
- e. Maximizing consumer protections for automated payments and automatic disbursement rules.
- f. Effective marketing and outreach to maximize program signups.
- g. Incorporating best practices to protect the safety, privacy, and assets of, and ensure for individuals facing financial abuse, including survivors of violence and trafficking.

9) Authorizes the Commission and State Treasurer's Office to design and implement optional program components throughout the life of the program, including:

- a. International remittance.
- b. Facilitating the voluntary sharing of financial transaction information such as voluntary credit reporting to assist accountholders in building credit or to establish a record of reliable financial transaction history.
- c. Referrals of accountholders to responsible banking services not provided through CalAccount, such as consumer lending, as specified.
- d. Programs and processes, as specified, to provide additional support for accountholders who may be at high risk of financial abuse, including accountholders subjected to domestic violence, sexual assault, stalking, and human trafficking.

10) Design the program to be a viable option for public benefit payments to individuals by meeting the following requirements:

- a. Issue reloadable debit cards redeemable under the program, consistent with its no-fee, no-penalty requirements.
- b. Work with governmental agencies to accommodate direct deposits from public payers.
- c. Respond to public benefit payment requests for proposals (RFP) it is well suited to fulfill.
- d. Where possible, coordinate with agencies to provide fee-free services, including unemployment payments.

11) Implementation of the program shall take place in two stages: the startup and administration phase and the implementation phase.

12) During the startup and administration phase, the commission shall appoint an executive director and specify the steps to be taken by the executive director and staff during this phase, in consultation with and with the approval of the commission, including the following:

- a. Developing RFPs for a financial services network administrator and any additional partners to implement the CalAccount Program.
- b. Developing a scoring rubric for evaluating responses to RFPs that ensures that the response's ability to achieve program goals is weighed heavily among selection criteria and that gives priority to responses that will contribute to the building of financial literacy and the availability and provision of responsible banking services, including by local financial institutions as defined in Section 57600.
- c. Hiring, contracting, or preparing to contract for any and all technical support services necessary for the ultimate rollout of the program.
- d. Entering into contractual relationships with public, nonprofit, and labor organizations, and any appropriate for-profit corporations, to facilitate marketing and sign up.
- e. Entering into contractual relationships with financial institutions to ensure access to ATM networks and locations where accountholders can deposit funds.
- f. Ensure that the commission and the public have adequate and meaningful opportunities to provide input throughout this phase.
- g. Create a working group or groups of stakeholders to provide input and advice during this startup and administration phase and the following implementation phase of the CalAccount Program.
- h. Allows work initiated during this phase may continue as needed during the implementation phase and thereafter.

13) During the implementation phase, the Commission shall do the following:

- a. Solicit proposals for and select a financial services network administrator.
- b. Establish the duties and functions of the financial services network administrator, as specified, which shall be in furtherance of the program goals.
- c. Establish processes to ensure changes to vendor participation don't disrupt accountholder access or services.
- d. Create and manage an internet website that shall serve as a primary source of information about the program, the financial services offered through the program, and the program network through which accountholders can load or withdraw funds from their CalAccount account using a CalAccount debit card for no fee, and is available in multiple languages reflecting the state's diverse population.
- e. Provide a secure web-based portal and mobile application through which individuals can enroll in the program and entities can become registered payees and through which accountholders can access and manage their CalAccounts. The web-based

portal and mobile application shall be available in multiple languages reflecting the state's diverse population.

- f. Establish the mechanisms by which an accountholder may deposit funds into or withdraw funds from a CalAccount account, as specified, including
- g. Establish no-fee processes for: (1) accountholders to elect direct deposit of wages; (2) employers and hiring entities to remit those deposits per worker election; and (3) accountholders to make payments to registered payees via preauthorized electronic transfers, with minimal employer-employee interaction.
- h. Establish enhanced security and privacy measures, as specified, on an opt-in basis tailored to the needs of vulnerable accountholders, including those facing housing instability or abuse.
- i. Establish the process and terms and conditions for becoming a registered payee, as well as, the voluntary automatic disbursement rules to help accountholders manage payments based on available funds, as specified.
- j. Take all appropriate steps to manage the relationship between the CalAccount Program and other state and local government programs, as specified.
- k. Facilitate and manage data exchange with the financial services network administrator to ensure execution of account elections—such as direct deposit, payment inquiries, preauthorized transfers, and disbursement rules—made by accountholders via the program's web portal or mobile app.
- l. Establish standards to ensure that any commercial product marketed to CalAccount accountholders is affordable, secure, and financially responsible, and to ensure that the executive director and financial services network administrator satisfactorily perform all duties and functions and do not market commercial products to CalAccount accountholders absent the commission's prior express, written authorization pursuant to those standards. These standards may include participation in a no-fee ATM network for accountholders

14) Work performed during this phase may continue as needed for the life of the program to ensure program elements can be updated and that the program will remain effective.

15) Additional powers and duties include:

- a. Allow for participation in the program by providers of in-home supportive services.
- b. Determine and implement necessary costs and supports for outreach, customer service, staffing, enforcement, and program administration.
- c. Consult with employers and employees to design an administrative structure that supports participation and clarifies employer duties.
- d. Prior to opening the California CalAccount Program for public participation, if there are sufficient funds available, or if an annual Budget Act appropriation is made in amounts sufficient to allow the board to implement, or both, the board shall establish

either or both (1) assess ATM access gaps and propose covering reasonable out-of-network fees, and (2) reduce international remittance costs through state and partner support.

- 16) Establishes the CalAccount Fund in the State Treasury. Moneys in the fund shall be available upon appropriation by the Legislature for purposes of this title.
- 17) Employers and hiring entities shall maintain a payroll direct deposit arrangement that enables voluntary worker participation in CalAccount.
- 18) Complaints that an employer or hiring entity has failed to allow its workers to participate in the CalAccount Program will be referred by the Commission to the Labor Commissioner. The Commission shall reimburse the Labor Commissioner for enforcement costs.
 - a. Violators shall be subject to a civil penalty of two hundred fifty dollars (\$250) per worker per violation in an initial citation and one thousand dollars (\$1,000) per worker for each violation in a subsequent citation for a violation of Section 100109 of the Government Code.
- 19) The commission shall submit an annual report by August 1 to the Governor, the Controller, the California State Auditor, and the Legislature which includes the following deidentified and aggregated information:
 - a. The number of accounts opened and closed in the program during the reporting period, by city and county.
 - b. The number of employers and hiring entities with workers who received payment to their CalAccount account through the employer or hiring entity's payroll direct deposit arrangement during the reporting period, by industry, city, and county.
 - c. Aggregate accountholder demographics, including, but not limited to, county, gender, age, race, ethnicity, primary language, annual income, and job industry.
 - d. A statement regarding risk management and oversight of the program.
 - e. Any other information the commission determines to be relevant to an assessment of the program.
- 20) The commission shall market the program to the residents of the state to the extent funds are available for this purpose.
- 21) The commission shall adopt regulations and may adopt emergency regulations, as it deems necessary to implement this title.

EXISTING LAW:

- 1) Prohibits a person from transacting business in a way or manner as to lead the public to believe that its business is that of a bank without actual authority to engage in such business. (Financial Code § 561)
- 2) Establishes the CalAccount Blue Ribbon Commission. (Government Code § 100100 et seq.)

FISCAL EFFECT: Unknown. This bill is keyed fiscal by the Legislative Counsel.

COMMENTS:

1) Purpose. According to the author:

With the cost of living skyrocketing and Californians struggling to afford basic groceries, every dollar a family can save counts. Sixty percent of households earn less than \$30,000 a year and do not have access to a bank account, due to pricey overdraft fees and minimum balance requirements. Lacking access to traditional banking not only means that you pay more for basic financial service, but that you are also less able to save, build credit, receive fee-free government assistance and exit poverty. AB 1365 removes banking barriers by establishing the CalAccount Program – offering a zero-fee, zero-penalty, and no-minimum debit account, ensuring that everyone has access to a bank account, while maximizing their income and savings.

2) CalAccount Blue Ribbon Commission. AB 1177 (Santiago, 2021) established the CalAccount Blue Ribbon Commission to conduct a market analysis to evaluate the feasibility of the proposed CalAccount Program.

CalAccount is designed to protect consumers who lack access to traditional banking services from predatory, discriminatory, and costly alternatives, which offers Californians access to a voluntary, zero-fee, zero-penalty, federally insured transaction account and related payment services at no cost to accountholders, including robust and geographically diverse mechanisms for accessing account funds and account management tools that facilitate the automation of basic financial transactions designed to serve the needs of individuals with low or fluctuating income.

3) Banking the Unbanked: CalAccount Market Study and Feasibility Assessment. On July 1, 2024, Rand Corporation released their report.¹ The report highlights the following:

- a. The expected benefits of CalAccount—particularly savings among Californians in marginalized groups gained by avoiding fees associated with banking and the use of alternative financial services—marginally outweigh the expected costs of CalAccount.
- b. The CalAccount Program is generally feasible, with two important caveats: Banks may have little incentive to participate in and promote the program, and lack of interest among California's unbanked and underbanked populations may pose a significant challenge to achieving sufficient enrollment in the program.
- c. Recommendations:
 - i. Implement CalAccount with instant payments: Mandating faster check-clearing times, which would provide account holders faster access to their funds, may reduce reliance on check-cashing services.

¹ https://www.rand.org/pubs/research_reports/RRA3117-1.html

- ii. Leverage low-cost options for in-person services, including enrollment: Implementing CalAccount as a mobile banking-only program, without the use of physical locations, is unlikely to garner sufficient uptake for benefits to balance costs.
- iii. To achieve sufficient enrollment in CalAccount, maximize outreach using community partners, including community organizations, faith-based organizations, and stakeholder groups.
- iv. Consider an implementation study that would explore challenges for CalAccount enrollment, especially lack of trust in banks and the government; consider how to enlist community partners in maximizing CalAccount enrollment; and provide more details about how the CalAccount Program would be structured.

2) Unbanked/Underbanked.² Approximately 1 in 6 California households lack full access to traditional banking services. This equates to roughly 2.5 million households across the state. Specifically, about 5.1% of households are considered unbanked, meaning no one in the household has a checking or savings account at a bank or credit union, and 13.9% of households are underbanked, meaning someone in the household has a checking or a savings account at a bank or credit union, but one a member has also used an alternative financial service (money orders, check cashing, etc.) in the past 12 months. The data also shows disparities between unbanked and underbanked by race, ethnicity, and education.

Alternative financial services include check cashing, money orders, and prepaid debit cards, which can carry high fees. Check cashing fees can vary based on the check amount. A study by Rand found the fee to cash a \$100 check ranges from \$1 to \$10, with a median fee of \$2.25. Money order fees range from \$0.60 to \$4.00, with limits between \$500 and \$1,000. Prepaid cards often incur multiple fees, including monthly transactions, automatic teller machine (ATM) withdrawals, and reloading fees. The report estimates that unbanked and underbanked households with a CalAccount will save fees for financial services totaling \$70 to \$150 per year. CalAccount may decrease reliance on these services.

The report notes the top three reasons for not having a traditional bank account, which include not having enough money for a minimum balance, not having enough money to need a bank account, and preferring to handle transactions with cash. The two features most likely to increase the likelihood of the unbanked and underbanked opening an account were a lack of minimum balance and a physical location at a bank. CalAccount can address the minimum balance to open an account.

3) Enrollment. “The success of CalAccount hinges on enrollment.” The report notes that the expected enrollment for CalAccount is high. Total enrollment in the first year is anticipated to be 353,496, and 710,424 in the second year. (Table 5.2, page 59). As noted by the opponents, Annex II page 14 shows enrollment comprised of banked and underbanked. This means enrollment into CalAccount would come from existing financial institutions. It is

²https://www.rand.org/pubs/research_reports/RRA3117-1.html

unclear if the underbanked making the switch to CalAccount are comprised of those with alternative accounts as described in #5 or traditional accounts.

4) Alternatives to CalAccount exist but are underutilized. Presented here is an overview of two programs and their major features.

a. Bank On. In 2015, the Cities for Financial Empowerment Fund established national Bank On standards for affordable checking accounts, inspired by the FDIC's Safe Accounts Template (e.g., no overdraft fees, robust debit card, and online bill pay capabilities).

As of December 2023, more than 11 million Bank On-certified accounts are open nationwide.³ In California, there are four regional programs with 65 participating banks.⁴ DFPI took over the statewide program in 2016. However, by 2021, DFPI reported the program had largely gone dormant due to limited funding and collaboration between financial institutions.

b. MoCaFi. In April 2020, Los Angeles launched Angeleno Connect to distribute relief funds and expand banking access for unbanked residents. Partnering with MoCaFi, the city issued fee-free debit cards, enabling deposits and benefits access. By 2022, over 38,000 cards were distributed, benefiting 105,000 people. The program, supported by Mastercard, IGNITE Cities, and Wells Fargo, seeks new funding and partners.⁵

c. Utilization. Despite demand from unbanked and underbanked populations, these programs are not utilized at higher rates. A 2024 article in the *Yale Journal on Regulation* postulated that Bank On accounts' lack of profitability incentivized banks to offer these accounts on a small scale.⁶ Traditional banks make money from fees (overdrafts, minimum balance charges, etc.). Low-income customers often generate lower profit margins and may be considered higher risk. Offering no-cost accounts with full services doesn't align with banks' incentive models unless subsidized or mandated. CalAccount fills this gap if subsidized by the state.

³ <https://www.stlouisfed.org/community-development/bank-on-national-data-hub/bank-on-report-2023>

⁴ <https://joinbankon.org/accounts/>

⁵ https://www.rand.org/pubs/research_reports/RRA3117-1.html

⁶ A 2024 article in the *Yale Journal on Regulation* postulated that Bank On accounts' lack of profitability has incentivized banks to offer these accounts on only a small scale.

COMPARISON WITH BANK ON AND MOCAFI INITIATIVES			
Feature	CalAccount	Bank On	MoCaFi
Type	State-administered public option	National certification of bank-offered accounts	Private fintech platform with municipal
Administered by	State Treasurer & CalAccount Commission	Cities for Financial Empowerment Fund	Private company (MoCaFi, Inc.)
Target Users	Unbanked, underbanked, undocumented, low-	Unbanked and underbanked individuals	Underserved urban residents
Access Channels	Mobile, ATM, in-person (DMV/partners)	Bank branches	Mobile app, prepaid cards
Cost to User	\$0	Up to \$5/month	Free or low-fee, depending on program
Public Benefit Integration	Yes	No	Limited, depending on local governments
Eligibility	Broad, including minors and undocumented	Varies by bank	Varies by city
Oversight	Public	Private certification	Private vendor
Privacy Protections	State-mandated, enhanced for immigrants	Not standardized	Limited enforcement

Source: RAND CalAccount Report, pp. 30–32, Table 3.1, and Box 2

5) Paying for CalAccount.⁷ AB 1365 proposes a federally insured no-fee and no-penalty debit account with a debit card. The report estimates that the costs for the implementation phase of Years 1 and 2 will be approximately \$291.5 million. This amount reflects the costs of developing a website, mobile app, new banking policies and procedures, enrollment, and outreach.*

The report breaks this cost down further and cites industry sources stating the average cost to maintain a customer checking account is between \$175 and \$400 per year. One scenario shows a CalAccount customer costs the program approximately \$290 per year. Interchange fees may make up to \$45 per customer account. The remaining \$245 is the gap between account revenue and costs that may be covered by other sources, including the state.

The report does not identify the funding source for CalAccount startup and administration costs, which include, but are not limited to, supporting a nine-member commission, staff, reimbursing members for travel expenses in connection with their commission duties; regulations, indemnification insurance, connectivity to a state and local programs; and reimbursement of costs for Labor Commissioner enforcement actions.

⁷ https://www.rand.org/pubs/research_reports/RRA3117-1.html (pg. 45)

6) **Budget Request.** Supporters of CalAccount have submitted a budget request for three years of funding. Supporters are requesting \$1.95 million in year 1, \$2.4 million in year 2, and \$3.5 million in year 3, which they believe is enough to support the startup and implementation of the CalAccount program. The report did not analyze Phase 1 and 2 startup and administration cost.

The requested amount does not reflect the costs for the implementation phase of Years 1 and 2 - approximately \$291.5 million. A separate budget request will be needed to address those costs.

7) **Amendments.**

a) **Findings and Declaration.** Amend Section 1 as “Findings and Declarations.”

On page 3, in line 1, strike out “According” and insert:

The Legislature finds and declares as follows:

(1) According

b) **Incorrect Cross Reference.** On page 10, lines 35-36, (g) (1) of Section 100102 relates to conflict of interest. It includes a reference to paragraphs (3) and (9) of subdivision (a) but there is no (9) under subdivision (a). It is likely intended to reference (b) as it includes paragraphs (3) and (9).

On page 10, line 36:

Strike (a) and insert (b)

c) **Maximizing Outreach.** On page 14, lines 23-29 refer to collaborating and cooperating with various entities to implement, administer, and maximize outreach and support for accountholder literacy and empowerment. This goal is well intended and data should be shared consistent with federal and state privacy and security laws to protect accountholder information.

On page 14, line 29, after “empowerment,” please add “consistent with federal and state privacy and security laws.”

d) **Powers.** Page 14, lines 37-38, “(12).” This language provides broad authority to Commission Members without any justification. It is premature. The Legislature could re-visit the need for this authority after completion of Phase 1.

On page 14, please delete lines 37-38.

e) **Board vs Commission.** On page 24, line 35 and page 25, line 40, the bill grants authority to the “board” but was likely meant to reference the “commission.”

On page 24, line 35 and page 25, line 40:

Delete “board” and insert “commission”

f) **Available Funds.**

On page 24, lines 32-36, revise the language as follows:

(h) Prior to opening the California CalAccount Program for public participation, if the Department of Finance determines there are sufficient funds available in the CalAccount Fund, or if an annual Budget Act appropriation is made in amounts sufficient to allow the board commission to implement, or both, the board commission shall establish either or both of the following:

On page 25, beginning on line 38 , please revise as follows:

(f) If the Department of Finance determines there are sufficient funds available in the CalAccount Fund, Either to the extent that program funds are available or to the extent that if an annual Budget Act appropriation is made in amounts sufficient to allow the board commission to implement, or both, the board commission shall develop a process for small employers to request financial and administrative implementation assistance. Small employers for the purposes of this provision only are defined as businesses with less than or equal to 100 employees.

g) Budget Act. On page 25, lines 7-9, revise to reflect that implementation of the bill as follows:

(a) The CalAccount Fund is hereby created in the State Treasury. Moneys the fund shall be available upon appropriation by the Legislature for purposes of this title.

(b) Moneys in the fund shall be available upon appropriation by the Legislature for purposes of this title.

(c) Prior to the execution of a contract with financial institutions, moneys in the fund shall be available upon appropriation by the Legislature after the Treasurer has confirmed, in a letter to the Joint Legislative Budget Committee (JLBC) that the Commission demonstrates the feasibility of achieving the goals in Section 100102.

h) Emergency Regulation Authority. On page 29, lines 16-29. The bill authorizes the Commission to adopt regulations and emergency regulations. The use of emergency regulation authority to implement the title does not provide for the “immediate preservation of the public peace, health and safety, or general welfare.” Providing broad emergency rulemaking authority is unnecessary and sets a bad precedent. As written, there is no time limit and any change can be made using emergency regulations, which severely limit public notice and input. Emergency regulations adopted as part of the regular rulemaking process are deemed by the Office of Administrative Law to be de facto approved, meaning if the public or Legislature has concerns, the Commission is not required to respond or make changes.

On page 29, delete lines 16-29.

4) REGISTERED SUPPORT / OPPOSITION:

Support

California Public Banking Alliance (Sponsor)
Asian, INC.

Bay Area-system Change Not Climate Change
Clear Beliefs Institute
Community Financial Resources
Congregations Organized for Prophetic Engagement
Consumer Federation of California
Economic Security California Action
End Poverty in California (EPIC)
Freefrom
Friends of the Earth U.s.
Golden State Opportunity
Inclusive Action for the City
Indivisible CA Statestrong
Inland Empire Prism Collective
Media Alliance
Microenterprise Collaborative of Inland Southern California
National Consumer Law Center
National Employment Law Project
Rise Economy
SEIU California
Sonoma County Climate Activist Network (SOCOCAN!)
The Academy of Financial Education

Opposition

California Apartment Assocation
California Bankers Association
California Community Banking Network
California Credit Union League
Card Coalition

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