BIG BANKS and the DISMANTLING of the MIDDLE CLASS

A report from the Center for Popular Democracy

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THE CENTER FOR POPULAR DEMOCRACY

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INTRODUCTION

The finance industry now dominates the U.S. and global economy, generating one-third of total corporate profits in the United States. But rather than serving communities and reforming the practices that led to the Great Recession, the country's top ten banks take in approximately $100 billion[1] in annual profits, reward executives with exorbitant bonuses, and engage in unethical and sometimes illegal practices that keep the very taxpayers who bailed them out from getting ahead.

Big banks drive an uneven recovery

The economic recovery has been an unequal one, deepening the divide between the wealthy and everyone else. The housing crash disproportionately harmed communities of color—and that damage has not been reversed. The median net worth for people of color fell 53 percent during the Great Recession; for Latinos, a 66 percent decrease. Median net worth for whites fell only 16 percent.[2]

Meanwhile, the financial sector, which triggered this cataclysm, has emerged stronger and more consolidated, rather than being fundamentally restructured. **The top five banks are still making 20 cents of profit on every dollar of revenue—after taxes.** To illustrate, a single $35 overdraft fee charged to a customer would generate $7 in profit for a big bank.

Big banks continue to take advantage of working families

Twenty-seven percent of Americans are unbanked and underbanked.[3] Instead of ensuring that Americans have the financial services they need to get ahead, big banks are closing needed local branches and pressuring workers to provide advice and services to customers based on a set of sales quotas, rather than sound financial principles. These practices are known to prompt predatory banking practices that have a negative impact on consumers, the economy and the workers forced to push them on their communities.

Bank workers across the country are at the frontlines of the banking industry and can play a critical role in ensuring fair banking practices that benefit customers, communities and the economy. But banks are cutting workers' benefits, pay and hours. In fact, front-line bankers' wages are lower now than what they were prior to the recession.

This report explores how big banks are making it impossible to rebuild the middle class and demonstrates that several underlying factors that contributed to the Great Recession persist to this

day. It begins with the financial sector's record of unethical business activities and, through the direct experiences of front-line workers, it details how banks are forcing workers to perpetuate these practices that threaten customers' economic security. Next, it explores the banking workforce and looks at the low pay, cuts in hours, outsourcing and closing of branches that exacerbate the underbanked crises already facing communities.

A way forward for communities

If banks continue to engage in risky and predatory behavior that perversely rewards executives, it will continue to endanger the banks themselves and threatening the economy at large. This report looks at how banks can change direction and play a critical role in supporting the economy and its recovery.

Specifically, to strengthen financial services across the country and ensure a banking system that works for everyone, the financial sector could adopt a **just compensation** model, where bank workers receive a fair share of the profits they create; **commit to achieving high-quality service**, wherein they promote the financial security of their customers above all; and invest in **a future in the communities** in which they operate.

PREDADORY PRACTICES: A WORSENING REALITY FOR CONSUMERS AND WORKERS

Banks serve an indispensable role in meeting peoples' day-to-day financial needs. And bank workers perform an invaluable service in their communities: helping people navigate the financial system.

Bank workers want to be advocates for their customers—for the child who opens his first savings account, the young adult planning for retirement, the homeowner seeking a mortgage, the senior citizen opening a credit card. But these core banking activities—helping someone open a savings account or plan for retirement—are what industry insiders consider 'low-value' or 'low-margin' services. They are not currently a priority for the big banks. As a 2014 industry report observes, banks try to avoid being "saddled with the bulk of low-margin accounts, while other firms siphon off high-margin products like credit cards and mortgages."[4]

Bank workers under pressure to sell high-interest products

Details from the legal settlements with the biggest U.S. banks illustrate the micro-level mechanisms the top banks used to enact their predatory practices:

> Banks impose skewed sales quotas on their tellers, customer service representatives, and loan interviewers.

Workers are forced by management to meet these sales goals based on hawking mismatched or predatory products and services, often to people in communities just like their own. Workers are often threatened with termination if they fail to meet these goals.[5]

Lawsuits against Big Banks

The Great Recession has underscored that the imperatives of the financial sector are categorically incompatible with the notion of banking for the public good. Across the top five[6] banks, since 2011, 17 different lawsuits have been settled for nearly $46 billion, highlighting a range of alleged illegal and unethical business practices.

Discriminatory lending

Some of the most egregious practices highlighted in these lawsuits are allegations that banks including JP Morgan Chase, Bank of America and Wells Fargo enacted company-wide lending policies that forced their workers to charge people of color higher interest rates or fees than white borrowers with the same credit, or steer people of color into subprime mortgages.[7]

Maximizing overdraft charges

Lawsuits have also detailed allegations that both Bank of America and US Bancorp sought to maximize their overdraft fee collection by posting charges to customer bank accounts in descending dollar amount, instead of in chronological order.[8] This practice increased the likelihood that customers would incur overdraft fees in any given month.

Forcing sales of un-needed products

Wells Fargo, JP Morgan Chase and Citigroup all faced charges that they forced homeowners into purchasing over-priced property insurance (or "force-placed insurance"). The latter two were also charged with entering into kickback arrangements that inflated the policies' prices.[9]

Manipulative sales quotas

Lawsuits have detailed how Wells Fargo and Bank of America both established skewed sales quotas for their front-line bank workers, designed to increase the sale of unethical products. Wells Fargo had specific quotas for mismatched products, forcing workers to sell more expensive subprime mortgage products to prime borrowers.[10] Bank of America created its "Hustle Program," which emphasized quantity over quality, rewarding employees for producing more loans and eliminating checkpoints designed to ensure the loans' quality.[11]

The Big Five

JP Morgan Chase

Bank of America

Citigroup

Wells Fargo

US Bankcorp

Although the news of multi-billion dollar settlements and new regulations for the financial industry filled the airwaves following the Great Recession, unhealthy and unethical practices persist in the financial sector and have gone under the radar.

A study conducted in December 2013 about changes to the banking sector since 2008 found that 35 percent of surveyed workers reported ***increased* sales pressure**:

> An employee of HSBC bank stated that workers who failed to meet their sales goals had the difference in sales taken out of their paycheck.
>
> Nearly 38 percent of survey respondents stated that there was **no real avenue to make complaints** about such practices in the workplace.
>
> Twenty-nine percent of surveyed workers reported issues with **layoffs or turnover** in the industry.
>
> Eighteen percent mentioned **that jobs had been shifted from full-time to part-time** or that there had been job freezes.[12]

Under conditions of anonymity, more bank employees have detailed how banks continue to impose extreme sales goals on their workers:

> A teller at a top-five bank reports that she is subject to stringent individual goals on a daily basis: if she does not make three sales-points (selling someone a new checking, savings, or debit card account) each day in a month, she gets written up.
>
> Customer service representatives at a call center for another major bank report that each individual has to make 40 percent of the sales of the top seller to avoid being written up. Selling credit cards counts more towards sales goals than helping someone open up a checking account or savings account, thereby crafting skewed incentives based on the profitability of a product sold, not on how well it matched the needs of a customer.

At the same time, the pressures in the industry take a toll too. The 2013 study found that one in three bank workers report stress levels of 9 or 10, on a scale of one to 10 where 10 is most stressed.

Unneeded credit cards

While mortgage lending practices are now under greater scrutiny in the aftermath of the crash, banks are turning to other products to continue their predatory practices. One arena is peddling unwanted credit cards. One teller says she has to “practically chase customers out of the door hawking unwanted credit and debit card accounts to a clientele hailing largely from African-American communities that have been ravaged by foreclosure and predatory lending. I am reprimanded when clients from these communities are rejected and pressured to push any product on them that they can qualify for.”

She notes that while official corporate policies discourage certain practices, district managers still force workers to do things like pitch credit cards as “reward cards” that provide overdraft protection on checking accounts.[13] Customers are told that having a credit card will help them avoid overdrafts if they are running short on cash. In reality, such inappropriate and unwanted credit products can simply drive customers further into debt, at at time when the average low- or middle- income household with credit card debt owes at least $7,000.[14]

Such interactions are also reported at call centers. A call-center worker stated that she tries to sell a credit card every time, where or not it makes sense for the client, because. “if you aren't offering, you can get marked down—the managers and Quality Analysts listen to your call, and can tell if you aren't offering.” This worker was written up for answering a customer’s question about his interest rate over the past three months; she was supposed to only divulge that day’s rate to him.

Another call-center worker reported that frontline bank workers:

> “impact customers because we're not servicing their needs. What they want, what they need, isn't important to us. Selling them a product is. If a customer wants to change a card, why give them two? It's impacting their credit score, because they get more credit cards than they need. Too many customers are led to believe that they are just changing cards, not getting a new one. Customers get confused when they have more cards, because they pay the wrong ones, and then get fees and interest, and it may affect their credit score. Sending them over to [Bank B],[15] even though we are required to say that [Bank A] and [Bank B] are two separate companies, customers are savvy enough to know they aren't, and believe that the bank is protecting them, even though we are looking to get them to a place that is less regulated. Some of our customers just have their savings, many are just retirees.”

THE BANKING WORKFORCE: CUTS IN PAY, HOURS AND BENEFITS

The top 10 banks are some of the most profitable businesses in the United States and boast more than $100 billion in profit. **The Big 5 Banks make more than 20 cents of profit—*after taxes*—**

on every dollar of revenue. At the same time, the frontline workers who are building those profits earn as little as $9 per hour, making them unable to send their kids to college, buy a home or put money into the very savings accounts they help customers start.

.A weak earnings report—for workers

The American banking sector convulsed in the late 2000s. Front-page headlines documented thousands of financial-sector layoffs, high-profile resignations, and paradoxical bonuses to investment bankers for the precise behavior that caused the financial crisis. Amidst the scrutiny, far less coverage was devoted to the fate of the thousands of front-line sales staff employed in the retail banking sector.

Nearly eight years later, and after huge taxpayer bailouts,[16] the financial sector has come roaring back, to report near-record level profits in 2014.[17] Yet, the tellers, loan interviewers, and customer service representatives who provide critical services to ordinary banking customers and depositors have experienced *declines* in their actual wages.[18]

Front-line bank workers, by occupation, 2007—2013

	Hourly wage (2013 $)		
	2007	2013	Change
Teller	$12.91	$12.25	▼5.2%
Loan Interviewer	$17.42	$16.86	▼3.2%
Customer Service Rep[1]	$16.59	$16.18	▼2.5%

Bank tellers, already the lowest-paid in the industry, have fared the worst, earning 5 percent less than they did before the recession. Half of all bank tellers are paid $12.25 per hour or less. In 2007, the median salary for these workers was $12.91 (in 2013 dollars).[19] A 2013 study found teller wages were so low than approximately 31 percent of the families of bank tellers rely on public assistance. The same study estimated that these unsustainably-low wages for tellers cost an annual $900 million to taxpayers.[20]

While wages and working conditions are the most extreme for tellers, all front-line workers have experienced wage losses in recent years.

In contrast, executive compensation within the banking industry remains alarmingly high. In 2013, the median annual compensation for CEOs in the Big 5 Banks, JPMorgan Chase, Bank of America, Citigroup, Wells Fargo and US Bank, was over $13.1 million, or **470 times the median annual income ($28,000) of a front-line bank worker.**[21]

Although most loan interviewers work full time, one in three tellers and one in five customer service representatives work part time,[22] and this may be intensifying. A survey of bank workers conducted in 2013 found that 17.5 percent of respondents mentioned workers being shifted from full-time to part-time, or hiring freezes, indicating that at least some of this part-time work may be involuntary.[23] In addition to uncertainty around hours and pay cuts, bank workers have also seen a decline in benefits, with 24 percent of surveyed workers reporting cuts in benefits since 2008, and 44 percent reporting that their medical and life insurance coverage was inadequate.[24] These deteriorating conditions are detrimental for both workers and their employers. A 2014 industry study estimated that workforce turnover in retail bank branches averages between 15 and 30 percent, with some positions as high as 40 percent.[25] That means that, in a single year, branches might have to replace four out of every 10 workers, because so many choose to quit.

Demographics of the bank workforce

Bank workers were once guaranteed a stable, middle class job, but the industry has now adopted low-wage standards for its front-line workers. The deteriorating quality of these jobs affects women disproportionately, as 85 percent of front-line bank workers are women.[26] This downward trend has a severe effect on the livelihoods of people of color, who make up a third of all front-line bank workers in the U.S.,[27] and a negative impact on the future prospects for these workers and their families. While front-line positions once served as a strong point of entry for workers of color into the overall finance industry, declining investment in the front-line workforce has made it more difficult for women and workers of color to move up the career ladder in the finance industry. Currently, workers of color only compose 20 percent of bank managers in the consumer banking sector.[28] Even further up, at the management level, only approximately 13 percent of workers are people of color.[29]

Cuts and outsourcing in the banking workforce

The retail banking sector is expanding part-time work,[30] paying people less, and trying to move lower-value transactions, like checking and savings accounts, into alternative channels, such as online or mobile banking.[31] In times of rampant inequality, a "low-value transaction" from the perspective of a Big Five Bank is going to be a lifeline to the average American bank customer. Some retail banks are shrinking their branch networks as they consolidate through mergers, and teller transactions are declining by 10 to 15 percent a year.[32] And since the financial crisis, several of the top banks have sent thousands of call center jobs to places as far ranging as Hungary, the Philippines, Costa Rica, India, and the

United Kingdom, shuttering facilities across the United States in the wake of these moves.[33] Ironically, several of these now-closed facilities had received lucrative federal contracts and local and state taxpayer subsidies for job creation, and the big banks that received taxpayer-funded bailouts have led the industry in offshoring jobs.[34]

The discrepancy between what big banks and their shareholders value and what customers really need extends even to high-margin products, like mortgages. A mortgage is usually the single largest financial purchase any family makes. Yet several of the largest mortgage servicing companies in the United States have moved as much as a quarter of their customer-facing staff offshore in order to reduce their labor costs.[35] This may not provide customers with the support they need, since offshore workers are often best suited for scripted conversations, and may lack the context and background information that is relevant in more complex situations, such as in the case of defaults.[36]

CONCLUSION

Currently, the nation's big banks are committed to a model that jeopardizes our communities and prevents bank employees from having a voice in their workplace. Profits in the baking industry are far above firms in other sectors of the economy, thanks in part to the low wages and pressure put on frontline staff to sell financial products regardless of the customers' needs. Yet, rather than investing in its front-line workforce that provide needed banking to already underserved communities, big banks are cutting pay, benefits and hours. Big banks are also closing branches in working class communities that already lack financial security and outsourcing crucial customer service jobs overseas.

Banks could be different. They could effectively provide needed financial services and become the central way for communities to invest in their futures. We recommend a comprehensive approach that would help consumers, workers and the economy. The financial sector could:

Adopt a just compensation model
Bank workers should be justly compensated for the critical role they play, not marginalized or devalued in what remains the most lucrative sector of the economy;

Commit to achieving high-quality service
Banks could promote the financial security of their customers above all and ensure that bank workers are able and encouraged to be honest brokers of their communities' financial security. This can be achieved by ending the unreasonable sales goals that prioritize shareholders' profits over community stability.

Invest a future in the communities in which they operate:

By investing in its workforce, banks can easily provide a true resource – the expertise of bank workers – to the millions of Americans who need financial advice. Providing bank workers access to full-time, stable employment, and not outsourcing those jobs overseas ensures communities have the high-quality banking services. Branches could be kept open and the branch network expanded to underserved areas, so that customers can gain access to financial services and participate more fully in civic life. Committing to a full-time workforce will help increase worker retention, allowing front-line workers to build lasting relationships with clients in the community. Banks could establish career ladders and provide educational training for front line staff, in order to develop sophisticated financial support workers who can also be cross-trained to fulfil multiple customer-facing needs.

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