Policy Recommendations for Expanding Access to Banking and Financial Services

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Access to financial services is necessary to fully participate in today's financialized economy. However, sizeable percentages of households are excluded from accessing and using the financial services they need. This makes it difficult for them to pay bills, access credit, and manage their day-to-day financial lives. The households excluded or marginalized from financial services are disproportionately households of color and lower income White households. Many reside in communities that have been abandoned by institutions like banks and credit unions.[1] Nearly half of all Black, Latinx, and American Indian/Alaska Native households, and approximately the same share of lower income White households, either lack a bank account or have one but borrow from high-cost alternative financial service providers like payday lenders.[2]

There is also tremendous inequality in access to financial services within communities.[3] Black, Latinx, and Native communities are particularly underserved, as are those of lower income Whites.[4] For example, residents of Native tribal communities travel an average distance of 12 miles to the nearest bank branch.[5] That distance is farther than the 10-mile benchmark typically used to define a banking desert.[6] Growing up in communities that lack bank branches or are geographically isolated from financial services is associated with having worse financial outcomes later in life—a lower credit score, for example.[7] Physical access to financial services remains important despite technological advancements; many depend upon in-person visits to bank branches. Forty-two percent of lower income households primarily conduct transactions at a bank branch, but only 7% use mobile banking.[8]

This brief summarizes policies with the potential for expanding access to financial services. The recommendations are grounded in the principles of targeted universalism, which asserts that expanding universal and inclusive access to financial services can be best achieved by recognizing the distinct social, economic, and political contexts in which historically marginalized groups and communities are situated.[9] Therefore, this brief emphasizes the widespread societal benefits of policies that target historically marginalized groups and communities.

Recommendation 1: Expand access to banking and financial services in underserved communities

Policy can play an important role in ensuring that underserved communities—including lower income White communities and communities of color—have access to financial access. Several existing efforts represent important policy levers for expanding access.

Support mission-oriented financial services

One opportunity for expanding access is to support mission-oriented financial services, such as community development credit unions, low-income credit unions, and minority depository institutions. The missions of these financial service providers are aimed at expanding access in underserved communities. Community development credit unions, for instance, have an explicit commitment to serve lower income communities, and they also operate in a cooperative model whereby members are owners.[10] As further indication of this commitment, community-development and low-income-designated credit unions were born out of the civil rights movement and the 1960s War on Poverty to expand access to financial services.[11] Minority depository institutions, another group of mission-oriented financial-service providers, are more likely than their nonminority counterparts to provide financial services to communities of color.[12] However, there are only around 170 of these institutions out of nearly 6,000 FDIC-insured banks, and their number has declined over time.[13]

There are specific policies that can support mission-oriented financial service providers. For instance, the Congressional Black Caucus' Economic Development and Wealth Creation Task Force recently proposed H.R. 3741,[14] which would enhance the Minority Bank Deposit Program originally created in 1969. The legislation also would encourage federal agencies to use and make deposits into minority depository institutions and low-income credit unions. Increasing funding for the Community Development Revolving Loan Fund would enable the National Credit Union Association to provide loans and technical assistance for more community-development and low-income credit unions. The funding should be used to build operational capacity and respond to emergencies in the communities of those institutions. While this fund was jeopardized in President Trump's proposed budget for fiscal year 2018,[15] the recently enacted appropriations bill provides funding for technical assistance through 2018.[16]

Increase funding for Community Development Financial Institutions

Additional opportunities for expanding access to financial services become possible by increasing funding for Community Development Financial Institutions (CDFIs).[17] Supported by the U.S. Department of the Treasury's CDFI Fund, over 5,000 CDFIs offer safe and affordable financial services to lower income communities. The institutions emerged in the 1970s as a result of the Community Reinvestment Act (CRA), and the Riegle Community Development and Regulatory Improvement Act of 1994 established the CDFI Fund to support their services.[18] In addition to creating jobs, providing access to capital, and offering financial education, CDFIs meet other needs in their communities through financing and investments. For example, they provide services to people with disabilities as well as financing for grocery stores and health centers.[19] Most—between 65% and 90%—of the lending by CDFIs is to borrowers that have historically been excluded from lending, including borrowers of color and tribal organizations.[20] Specifically geared toward supporting Native communities, the CDFI Fund's Native Initiatives have provided $120 million in financial and technical assistance to Native-serving CDFIs.[21] While the recently enacted appropriations bill provides funding for the CDFI Fund, the fund remains vulnerable to federal divestment.[22] Efforts to eliminate or reduce the CDFI Fund should be opposed, and funding for it should be increased.

Recalculate the formula for CRA credits

Regulation and oversight can be used to improve access to financial services. One possibility is to recalculate the points used to assign CRA ratings or credits to banks.[23] The CRA was enacted in 1977 to assess FDIC-insured banks' provision of financial products and services within economically distressed communities. It was also intended to provide compensation for redlining and discriminatory lending practices by banks in communities of color.[24] Through the CRA, FDIC-insured banks receive ratings based on points earned within the categories of lending, investment, and service. These ratings affect their abilities to make business decisions about such matters as mergers with and acquisitions of other banks. However, 97% of banks earn top ratings,[25] which raises questions about whether banks' CRA ratings actually reflect the experiences of households and communities. Lower income White households and households headed by people of color are still less likely to own financial products and services, and banks simultaneously avoid opening branches in the communities where those households reside.[26] This may be partly due to the formula for calculating CRA credits. Banks earn the most points under the category of lending. The formula gives far fewer points for service: opening or retaining bank branches in communities as well as providing safe, affordable financial products and services. The formula for CRA credits can be strengthened by allocating more points for banks' service. Doing so could incentivize the expansion of financial access in underserved communities.

Until the CRA formula better incentivizes banks to invest in underserved communities, community benefits agreements (CBAs) represent a practice strategy that can be used to hold banks accountable under the CRA. The agreements are often used by tribal communities and other disenfranchised groups to make sure that real estate developers invest in the communities where their projects are located.[27] Advocacy groups are increasingly using CBAs to leverage CRA policy requiring banks to invest in lower income White communities and communities of color. For example, in 2016, the National Community Reinvestment Coalition and KeyBank negotiated a

$16.5 billion, 5-year CBA.[28] The agreement committed KeyBank to investments in home-mortgage, small-business, and community-development lending in Maine, New York, Pennsylvania, Ohio, and Oregon. In exchange, KeyBank's investments qualified for CRA credits. The CBA also included commitments that were tailored to specific communities.[29] For example, communities in Buffalo, New York, needed better access to bank branches and expanded banking infrastructure. KeyBank agreed to broaden investments in CDFIs and retain some branches slated for closure in underserved communities. The bank also agreed to discontinue financing for CASH America's payday lending. Although the effectiveness of CBAs as a practice strategy has not been evaluated, they have the potential to leverage CRA policy for efforts to significantly expand access to financial services in underserved communities—particularly when CBAs include provisions to hold banks accountable for their agreed-upon investments.

Expand affordable, reliable Internet connectivity

An array of financial technologies—online and mobile technologies referred to by their shorthand, *fintech*—is credited with the potential to expand access to financial services in underserved communities. With these technologies, the individual consumer's geographic distance from the brick-and-mortar bank or credit-union branches becomes irrelevant. In the process, fintech dilutes any negative effects from the lack of formal financial services in communities.[30] In other words, a person can make transactions via a computer or smartphone, regardless of whether a bank or credit-union branch is located in the individual's community. Numerous examples demonstrate fintech's potential to expand access, especially access in communities outside of the United States;[31] however, challenges persist on the path to fintech's potential. Internet connectivity is required for online and mobile transactions. Many lower income households cannot afford Internet or phone service capable of making these transactions.[32] About 20% of lower income households miss a utility payment over a 12-month period, and 10% have their phone service disconnected.[33] These households could lose access to financial services and their money when their phone or Internet service is disrupted. High-speed Internet connectivity and unlimited data plans cost extra; households that meet or exceed the limits of their data plans could also find that they are unable to make online or mobile transactions. Moreover, high speed Internet connectivity varies considerably: When compared with other communities in the United States, lower income communities of color and rural communities are vastly underserved.[34] Therefore, policies and programs should make the most of fintech's potential to facilitate financial access, ensuring that lower income households and their communities have reliable and affordable Internet access.[35] This also means protecting net neutrality and opposing attempts to deregulate the Internet. With the recent repeal of Internet regulations, the Federal Communications Commission has effectively increased the discretion and authority of Internet service providers. The repeal will likely undermine Internet access in marginalized communities.[36]

Recommendation 2: Expand access to safe and affordable banking products

In light of evidence that a sizeable percentage of households cannot afford basic financial products and services,[37] there is interest in making bank or transaction accounts safer and more affordable.[38] There are several opportunities for policy to support access to safe and affordable financial products and services. Policy also has a critical role to play in ensuring that lower income households have what they need to manage their day-to-day financial lives.

Enforce Bank On and FDIC Model Safe Accounts standards

Existing guidelines provide a starting place for defining safety and affordability in basic, entry-level checking or transaction accounts. The Cities for Financial Empowerment Fund's Bank On National Account Standards recommend an opening deposit of $25 or less, a monthly maintenance fee up to $10, no overdraft or insufficient funds fees, and free online and mobile banking.[39] The FDIC's Model Safe Accounts template specified core features that include an opening deposit of $10 to $25, a monthly maintenance fee up to $3, no overdraft or insufficient funds fees, and free online and mobile banking.[40] Unfortunately, few banks provide basic, entry-level checking account products with these core features.[41] Results from analyses with survey data from a stratified random sample of banks across the United States indicated that only 9% offered basic checking accounts with the core features of the Bank On National Account Standards, and those analyses did not exclude banks whose accounts charged overdraft or nonsufficient funds fees.[42] Existing regulations and oversight could broaden the adoption of these guidelines. For example, banks' compliance with FDIC's Model Safe Accounts could be considered in awarding credits under the CRA test's service category.

Ensure the right to a bank account

Policy can play important roles in helping financial institutions to adhere to safety and affordability guidelines as well as in establishing consumers' right to a safe and affordable bank account. Canadian policy provides useful models. For example, the 2001 Financial Consumer Agency of Canada Act requires banks to offer basic accounts at a cost of less than $4 per month.[43] The Financial Consumer Agency of Canada oversees banks' provision of these accounts. Under the act, everyone has a right to open a bank account—even consumers who have a criminal record, filed bankruptcy, and lack a job, regular income, or money for an initial deposit.[44] Banks cannot turn away an individual who wants to open a bank account and has valid, government-issued identification. Moreover, Canada's Bank Act allows households to cash checks from the federal government at banks free of charge, even without owning a bank account.[45] The act suggests that Canadian households do not have to pay fees to receive federal public-assistance benefits. This means that lower income households can keep more of the benefits they receive.

Support municipal identification cards

For some consumers, the lack of government-issued identification is a barrier to accessing safe and affordable financial products. Banks require consumers to present identification when opening accounts. Acceptable forms typically include government-issued drivers' licenses, Social Security cards, and U.S. passports. About one third of banks report accepting alternate forms of identification such as tax-identification numbers, consular or embassy identification, and tribal credentials.[46] Banks that accept these forms of identification commonly require consumers to produce a second government-issued credential. Marginalized groups may not have the government-issued identification required to open a bank account. This is a particular concern for immigrants, older adults, people who are homeless, and youth in state systems like juvenile justice and foster care.[47] Some cities have created municipal identification that their residents can use to open bank accounts: New York, Los Angeles, San Francisco, and Washington, DC, offer municipal identification cards.[48] Cities' efforts to create such cards should be supported, particularly given the potential of the cards to expand financial access among marginalized groups.

Recommendation 2:
Protect consumers from abusive financial system practices

Additional opportunities for policy to expand financial access can be found in the area of consumer protection. Moreover, the protection of consumers is simultaneously a protection of civil rights.[49] This is because lower income White consumers and consumers of color are at disproportionate risk for experiencing abusive financial system practices that may exclude them from accessing and using financial products and services.

Protect the Consumer Financial Protection Bureau

Established in 2010 by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Consumer Financial Protection Bureau (CFPB) has been a staunch advocate for consumers on a myriad of important issues related to bank accounts and financial access. For example, the CFPB issued a rule that would have eliminated mandatory arbitration clauses in the terms of banks' checking accounts and other agreements.[50] Initially scheduled to take effect in 2018, this rule would have affected a large percentage of consumers: 98% of consumers who use financial products have checking accounts,[51] and 72% of banks' checking-account agreements include mandatory arbitration clauses prohibiting consumers from pursuing class-action litigation.[52] Another example of the CFPB's advocacy may be found in an effort related to overdraft and nonsufficient-funds fees. Consumers pay nearly $15 billion annually in overdraft fees.[53] This prompted the agency to release new data on overdraft and nonsufficient funds fees. The bureau also solicited public comment on new overdraft disclosure forms,[54] which are designed to make it easier for consumers to understand the conditions under which they can be charged fees for overdrawing an account or for initiating transactions for an amount that exceeds the account balance. Moreover, the CFPB maintains a consumer complaint database.[55] These newly available, anonymized, public data can be used for research purposes. In addition to facilitating understanding of access to financial services, the data can be used to identify where and how consumers may be vulnerable as well as to develop policy responses.[56] Since 2011, the CFPB has collected over 86,000 consumer complaints on checking and savings accounts, including complaints about overdraft and nonsufficient-funds fees.[57]

Unfortunately, legal challenges and policy proposals like the Financial CHOICE Act endeavor to dismantle the CFPB and undermine consumer protections,[58] making it less likely that financial services will operate in consumers' best interests. The current CFPB director has proposed blocking the consumer complaint database from public view, which would reduce transparency about the complaints the bureau receives and eliminate opportunities for research.[59] Moreover, the CFPB's recent rules on mandatory arbitration clauses and payday and other small-dollar lending have been repealed.[60] Efforts to dismantle the CFPB and undermine consumer protections have implications for the most vulnerable and marginalized consumers. For example, a 2017 lawsuit filed in San Francisco alleged that Wells Fargo's employees targeted undocumented immigrants by opening bank accounts and lines of credit without consumers' knowledge. The bank then charged fees for products and services that consumers did not know they owned.[61] As a result, Wells Fargo later agreed to pay a $100 million fine to the CFPB. Therefore, the Financial CHOICE Act and similar actions to weaken or dismantle the CFPB's enforcement should be opposed in the strongest of terms.

Make it easier for consumers to switch banks

Once a bank account is opened, it is highly unlikely that a consumer will close the account.[62] In other words, the inertia bias associated with desirable outcomes—such as remaining connected to mainstream financial services, saving money, and accumulating wealth[63]—can also prevent consumers from taking their business and their money elsewhere if they encounter abusive practices. According to industry surveys, nearly 70% of consumers have kept their accounts at the same banks over time, though a sizable percentage are dissatisfied with these banks' products and services.[64] Consumers may also want to move their money to another bank that more closely aligns with their values of social and economic justice.[65] Some banks even charge fees for closing some accounts and transferring funds.[66] Those fees could further discourage consumers from switching banks. The Freedom and Mobility in Consumer Banking Act, proposed in 2013 to amend the 1991 Truth in Savings Act, would have established procedures for banks to follow when consumers close certain types of accounts. In addition to prohibiting banks from charging fees and requiring them to report the terms of account closures to screening agencies like Chex Systems, the act would have made it easier for consumers to transfer their funds into accounts at other institutions. By passing the Freedom and Mobility in Consumer Banking Act, Congress will improve the ability of consumers to protect themselves and their money if they experience abusive financial-system practices.

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Notes

[1] Federal Deposit Insurance Corporation (FDIC; 2016).

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[3] Despard and Friedline (2017).

[4] Brown, Cookson, and Heimer (2016); Celerier and Matray (2016); Jorgensen and Akee (2017).

[5] Jorgensen and Akee (2017).

[6] Morgan, Pinkovskiy, and Yang (2016). A *banking desert* refers to a geographic area or community that does not have a bank or credit-union branch within a 10-mile radius (Morgan et al., 2016). Greater travel distance (transportation, gas, etc.), time (actual minutes or hours), and the costs of each of these contribute to access to financial services, or lack thereof.

[7] Brown, Cookson, and Heimer (2016).

[8] FDIC (2016).

[9] powell (2008); Sprague, Thomhave, and Black (2016).

[10] Nembhard (2013).

[11] National Federation of Community Development Credit Unions (n.d.-a, n.d.-b).

[12] Kashian, McGregory, and McCrank (2014).

[13] Kashian and Drago (2017); Toussaint-Comeau and Newberger (2017).

[14] A Bill to Codify the Minority Bank Deposit Program, and for Other Purposes (2017).

[15] Office of Management and Budget (2017).

[16] For more information, see the Consolidated Appropriations Act (2018, p. 193), https://www.congress.gov/115/bills/hr1625/BILLS-115hr1625enr.pdf#page=193.

[17] Theodos, Fazili, and Seidman (2016).

[18] Community Development Financial Institutions Fund (2016); Community Reinvestment Act (1977); Riegle Community Development and Regulatory Improvement Act (1994).

[19] On services to people with disabilities, see Harrison, Ratigan, and Apfel (2008); on financing for grocery stores and health centers, see Goldstein, Loethen, Kako, and Califano (2008) and Kotelchuck, Lowenstein, and Tobin (2011).

[20] Swack, Hangen, and Northrup (2014).

[21] Community Development Financial Institutions Fund (2016).

[22] For more information about President Trump's 2018 budget, see Office of Management and Budget (2017) and Consolidated Appropriations Act (2018, p. 193), https://www.congress.gov/115/bills/hr1625/BILLS-115hr1625enr.pdf#page=193.

[23] Barr (2005); Getter (2015).

[24] Agarwal, Benmelech, Bergman, and Seru (2012); Litan, Retsinas, Belsky, and Haag (2000).

[25] Getter (2015).

[26] FDIC (2016); Smith, Smith, and Wackes (2008); Temkin and Sawyer (2004).

[27] Buchanan (2010); Marcello (2007); Hutchison (2017).

[28] National Community Reinvestment Coalition (2016a, 2016b).

[29] Abello (2016); National Community Reinvestment Coalition (2016a).

[30] Demirgüç-Kunt and Klapper (2012).

[31] Economist Intelligence Unit (2016).

[32] World Bank Group (2016).

[33] Mills and Amick (2010).

[34] PolicyMap (2016); Prieger and Hu (2008).

[35] Berzin et al. (2016).

[36] Fung (2017).

[37] FDIC (2016).

[38] *Safety* refers to protection against risk. This motivation can translate into the use of an account to protect money from theft, fraud, and impulsive spending. Safety in this context also means that consumers can make transactions without fear of hidden fees, suggesting that transparency about pricing is paramount. In this context, affordability refers to the reasonable pricing of features for bank or transaction accounts; however, whether pricing is affordable or reasonable is subjective. It depends on the point of comparison. One standard for affordability is that the consumer can meet the costs of opening and maintaining an account without forgoing other necessary expenses. Another is that overdraft fees are not exorbitant.

[39] Cities for Financial Empowerment Fund (2017).

[40] FDIC (2012).

[41] Friedline, Despard, Eastlund, and Schuetz (2017).

[42] Friedline et al. (2017).

[43] Daniel (2003); Financial Consumer Agency of Canada Act (2001); Law Commission of Ontario (2008).

[44] There are some exceptions (e.g., banks are not required to maintain accounts being used for illegal activity). For more information about Canada's bank account policy, see http://www.fcac-acfc.gc.ca/eng/resources/publications/yourRights/Pages/OPENINGA-Ouvertur.aspx.

[45] Bank Act (1991, Sec. 458.1). Banks are required to cash checks up to the amount of $1,500. For more information on Canada's government check cashing, see http://www.fcac-acfc.gc.ca/eng/resources/publications/yourRights/Pages/Cashingy-Encaisse.aspx.

[46] Friedline et al. (2017).

[47] Calvo et al. (2016).

[48] Center for Popular Democracy (2013); PolicyLink (2014).

[49] UnidosUS (2017).

[50] Arbitration Agreements (2017).

[51] FDIC (2016).

[52] Pew Charitable Trusts (2016).

[53] Wattles (2017).

[54] Evans and Stein (2017).

[55] The database may be found at https://www.consumerfinance.gov/data-research/consumer-complaints/.

[56] Begley and Purnanandam (2017); Foohey (2017).

[57] Friedline (2017, para. 12).

[58] Financial CHOICE Act (2017).

[59] Cowley (2018).

[60] Issued on July 10, 2017, the CFPB's final rule on arbitration agreements became effective on September 18, 2017 (Arbitration Agreements, 2017). The rule was repealed in November 2017 through enactment of a Joint Resolution Providing for Congressional Disapproval (2017b). A similar proposal to repeal the CFPB's rule on lending has not, as of this writing, received congressional approval (Joint Resolution Providing for Congressional Disapproval, 2017a).

[61] White (2017).

[62] Friedline, Johnson, and Hughes (2014).

[63] See, e.g., Thaler and Sunstein (2009).

[64] Kasasa (2015).

[65] BankBlack (2017).

[66] Consumer Reports (2012).

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About the Grand Challenges for Social Work

The 12 Grand Challenges for Social Work are the targets of a groundbreaking effort to champion social progress powered by science. Initiated by the American Academy of Social Work and Social Welfare, this effort seeks to address society's toughest social problems through the concerted work of many. Additional information on the Grand Challenges may be found at GrandChallengesforSocialWork.org.

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