Opening Mobility Pathways by Closing the Financial Services Gap

William J. Bynum, Diana Elliott, and Edward Sivak

February 2018

The ideas in this paper were shaped by discussions within the Partnership but do not necessarily represent the views of all members.

The authors would like to thank Greg Acs, Loren Berlin, Alan Branson, David Elwood, Jim King, Lisa Mensah, and Nisha Patel, who reviewed and provided feedback on drafts. Participants in an access to financial services design lab were generous with their time, energy, and expertise during a daylong discussion. The design lab participants were Daniel Davis, Connie Evans, Todd Greene, Irvin Henderson, Pam Johnson, Mohan Kanungo, Bernie Macyzk, and Ines Polonius. Fiona Blackshaw, Rachel Harmon, Adaeze Okoli, Matt Rogers, and Jessica Shappley also made important contributions to the paper and the drafting process.

Responsibility for any errors lies with the authors alone.

ABOUT THE US PARTNERSHIP ON MOBILITY FROM POVERTY

With funding from the Bill & Melinda Gates Foundation, the Urban Institute is supporting the US Partnership on Mobility from Poverty. Led by chair David Ellwood and executive director Nisha Patel, the Partnership consists of 24 leading voices representing academia, practice, the faith community, philanthropy, and the private sector.

The Partnership's definition of mobility has three core principles: economic success, power and autonomy, and being valued in community. Our collective aspiration is that all people achieve a reasonable standard of living with the dignity that comes from having power over their lives and being engaged in and valued by their community.

Contents

Executive Summary **iv**

How Financial Services Facilitate Economic Mobility for Individuals and Families **1**

Financial Services, Credit, and Mobility 2

Homeownership and Mobility 3

Small Business Ownership and Mobility 4

How Financial Services Foster Strong Communities **5**

Proposal for Increasing Access to Financial Services for Individuals and Communities **8**

Triple Bank Lending, Services, and Investment in Underserved Markets 8

Role of Philanthropy: Support Education around the Community Reinvestment Act 9

Role of Government: Focus CRA Discussions on Rural Communities 9

Strengthen Community Development Financial Institutions 9

Role of Philanthropy: Create an Economic Mobility Equity and Investment Fund 11

Role of Government: Continue to be a Funding Partner 11

Establish Universal Basic Accounts for All Americans 12

Role of Philanthropy: Fund Universal Basic Account Demonstrations 13

Role of Government: Examine the Feasibility of Universal Basic Accounts 13

Cultivate a Fair and Responsible Financial Marketplace for all Americans 13

Role of Philanthropy: Support a National Campaign to Promote Responsible Financial Services 14

Role of Government: Protect Consumers 14

Appendix. Analysis of Fees Paid by Unbanked and Underbanked Consumers for Abusive Financial Products and Services **15**

Notes **17**

Executive Summary

At the risk of stating the obvious, people and places need money to achieve economic success. However, the financial resources required to acquire and manage money are very unequally distributed.

Nationally roughly one in four, or 33.5 million, American households are "unbanked" or "underbanked," meaning they have no formal relationship with a financial institution or look outside the banking system for credit and other financial services. The vast majority of these consumers are low income. Half of households making less than $15,000 a year, and more than a third of those making between $15,000 and $30,000 a year, are either unbanked or underbanked.

Entire communities are deprived access to quality financial services in the same way these individuals are. For example, the 50 most economically mobile counties in the United States have significantly higher rates of access to bank branches, conventional mortgage lending, and small business capital. In contrast, nearly three-quarters of the nation's 50 least economically mobile counties are also persistent-poverty counties.[1] Consequently, these places lack the resources needed to adequately support schools, small businesses, health care providers, and other essential contributors to economic opportunity.

Access to financial services matters. Take homeownership, which remains a cornerstone of the American dream and economy. Homeownership stabilizes individuals and communities. The children of homeowners tend to do better in school. Low-income homeowners vote at higher rates than middle- and upper-income homeowners. The property taxes paid by homeowners fund education and other critical services. But for most people, certainly for low-income people, buying a home is only possible with a mortgage.

We seek to create mobility pathways for underserved communities and people living in poverty by closing the financial services gap. To accomplish this, we propose the following four strategies that capitalize on the nation's existing traditional and community development finance infrastructure; leverage banking regulatory structures; and where necessary, create new tools.

1. Triple bank lending, services, and investment in unserved markets by leveraging the Community Reinvestment Act.
2. Increase public and private investment in community development financial institutions to expand the availability of quality financial services in underserved markets.
3. Establish universal basic accounts for all Americans.

4. Support policies and practices that foster a fair and responsible financial marketplace for all Americans.

We estimate that the successful implementation of these recommendations would generate more than $43 billion in investment in opportunity-producing assets in low-income communities and would enable consumers to retain $1.9 billion they would otherwise use to pay for high-cost and predatory financial services.

Impact on Three Dimensions of Mobility

The Partnership's definition of mobility has three core principles: economic success, power and autonomy, and being valued in community.

Investment: We propose improving access to financial services for underserved communities and people living in poverty through four strategies: triple bank lending, services, and investment in unserved markets by modernizing and enforcing the Community Reinvestment Act; increase public and private investment in community development financial institutions to expand the availability of quality financial services in underserved markets; establish universal basic accounts for all Americans; and support policies and practices that foster a fair and responsible financial marketplace for all Americans. Increasing lending services would involve tens of billions of dollars in increased lending with the associated costs varying based on repayment and investment. The equity and investment fund we propose to create would cost $1 billion, and the universal savings accounts would cost $250 per account.

Impact:

- Economic Success: We estimate that the successful implementation of these recommendations would generate more than $43 billion in investment in opportunity-producing assets in low-income communities and would enable consumers to retain $1.9 billion they would otherwise use to pay for high-cost and predatory financial services. We expect to see increased savings, home ownership, and business investment, which in turn will lead to higher-quality community amenities and services.
- Power and Autonomy: We expect community residents to worry less about financial security, report higher levels of self-efficacy, a greater sense of control, and greater collective efficacy.
- Being Valued in Community: Community residents will increase their civic engagement, report higher subject social status, and feel more welcomed and better served by local financial institutions.

How Financial Services Facilitate Economic Mobility for Individuals and Families

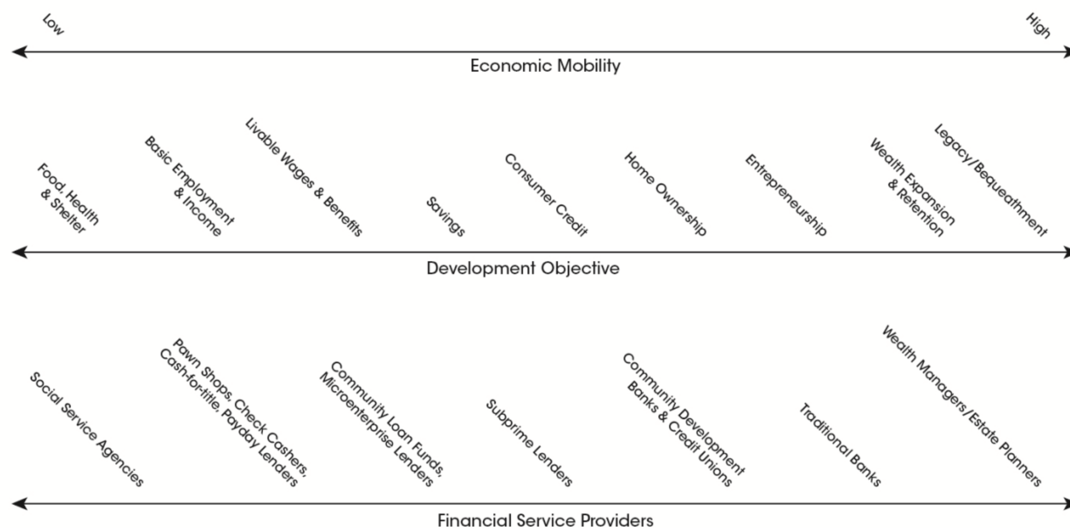
Across the nation, approximately one in four, or 33.5 million, American households have no formal relationship with a financial institution (meaning they are "unbanked") or have a bank account but look outside the banking system for credit and other financial services (meaning they are "underbanked"). The vast majority of these consumers are low income. Half of households making less than $15,000 a year, and more than a third of those making between $15,000 and $30,000 a year, are either unbanked or underbanked. Because they do not conduct financial transactions with mainstream financial institutions, these consumers struggle to access the safe, affordable financial services that help facilitate economic security and mobility. Safe, affordable products have many benefits, and a lack of access to these products and services limits homeownership, small business ownership, and other opportunities critical to economic stability and mobility.

Figure 1 illustrates the relationships between access to quality financial services, basic financial security, and economic mobility. When mobility is low, individuals and the organizations that support them (such as social service agencies) focus on basic needs, such as food, shelter, and health. Mobility increases as people gain living wages and can save and accumulate assets, and as the institutions that facilitate mobility evolve from high-cost financial service providers to traditional banks and financial service corporations. The presence or absence of such institutions also signals how wide or narrow the mobility path could be within a given community.

Importantly, the continuum also offers insights relative to agency and autonomy, key power dynamics that influence economic mobility. As people (and communities) move toward the right side of the continuum, they exhibit more influence and control over their circumstances. The following sections expand upon important ways in which financial services, economic mobility and power/autonomy are related.

FIGURE 1

Economic Mobility–Financial Service Continuum



Financial Services, Credit, and Mobility

In the same way a hospital nurtures someone's physical health, a mainstream financial institution can encourage someone's financial well-being. People with access to the mainstream financial system, through a depository institution such as a bank or credit union, have a government-insured, nonpredatory vehicle that enables them to save, build credit, and secure financing for important purchases. This money may be used to save, buy a car or home, or start a business, all of which help facilitate employment and asset accumulation. When lower-income families have access to bank accounts, they are more likely to own assets than families of similar means without bank accounts.[2]

Absent access to quality financial services, unbanked and underbanked consumers have to turn to high-cost, predatory products that weaken financial health through expensive fees and a lack of critical consumer protections. The average unbanked American spends 5 percent of her net income—approximately $1,000 annually or $40,000 over her working years—on fees associated with high-cost products.[3] This is money that low-income consumers cannot afford to lose and that could be used for food, housing, and other basic needs, rather than high fees. Among the unbanked alone, we estimate that $1.9 billion is spent every year on fees related to high-cost financial products, underscoring how much money could be redirected toward mobility-enhancing investments (table 1).

TABLE 1

Total Spent on Alternative Financial Service Provider (AFSP) Fees by the Unbanked Population

Estimated unbanked adult population: 15,600,000

	Share of unbanked using AFSP	Fees spent per person annually	Estimated total spent annually among the unbanked on AFSP fees
Used money orders	43.9%	$19.20	$131,459,328
Used check cashers	24.7%	$253.44	$975,778,713
Used payday lenders	9.8%	$520.00	$797,409,600
Used tax refund loan	7.4%	$30.00	$34,538,400
Estimated annual fees spent by the unbanked population on AFS			**$1,939,186,041**

Sources: Number of unbanked is from FDIC 2016 survey estimates. Shares of unbanked using AFSPs are from the authors' analysis of the 2016 Federal Reserve's Survey of Household Economic Dynamics.

Note: Calculations of totals spent are based on the incidence rate for the population multiplied by the cost in fees spent by each person.

The burden of costly financial products disproportionately affects underserved populations. Analysis shows that households that rely on high-cost products are among the most distressed populations in the country. Households more likely to be unbanked and using alternative financial services are very low income; those with a head of household who has a disability or less than a high school education or who is black, unemployed, a single mother, or an immigrant; and those that speak only Spanish.[4]

Homeownership and Mobility

Homeownership is one of the most important wealth-building tools for families and is associated with a host of positive outcomes—economic, social, and otherwise:

- Homeownership builds wealth.[5] In the United States, each additional year of homeownership increases a household's total net worth an average of $13,700.[6]
- Homeownership reduces high school dropout rates and teenage pregnancy rates.[7]
- Homeowners tend to have lower risk of unemployment, shorter unemployment spells, and higher wages than renters.[8]
- Children of homeowners exhibit higher rates of high school graduation and postsecondary enrollment than the children of renters.[9] They also have a lower probability of depression than the children of renters.[10]

- Homeowners exhibit higher levels of civic participation than people who rent, even through periods of economic distress.[11] Importantly, low-income homeowners vote at greater levels than middle- or upper-income homeowners.[12]

Of course, most people could never buy a home without a mortgage.[13] Furthermore, someone's level of access to financial services will affect the likelihood of obtaining a mortgage and ultimately the cost he or she will pay. The presence of a bank branch and mortgage originations are strongly correlated. The cost of mortgages decreases in areas as the presence of bank branches increases.[14]

Small Business Ownership and Mobility

Small business ownership can foster economic mobility in several ways. For people of color, entrepreneurship is a way of earning higher incomes and attaining greater wealth than would be earned or accumulated as a member of the workforce. Research conducted by the Aspen Institute affirms this: a significant number of microbusiness operators combine employment and self-employment to generate earnings and contribute to their households, with many moving out of poverty.[15] Black business owners have a median net worth 12 times greater than that of black individuals who do not own a business. Among Hispanic business owners, net worth levels are five times the net worth of Hispanic individuals who do not own a business.[16] Business ownership has also proven an effective avenue for bridging the racial wealth gap. The Kaufman Foundation cited entrepreneurship as an avenue for building wealth within the Native American community,[17] and while the median wealth of white people is 13 times higher than the median wealth of African American people, the gap narrows to only 3 times higher when comparing white and black business owners.[18]

Despite the benefits of business ownership, access to capital for minority- and women-owned firms for start-up or expansion remains a challenge. Loan denial rates are higher for black entrepreneurs than for white men; and, in a survey of black entrepreneurs, 84 percent of respondents cited capital access as a critical constraint for growth.[19] In another survey, 28 percent of borrowers of color seeking small business credit were approved by a bank in contrast to 67 percent of white borrowers.[20] Loan denial rates for Hispanic business owners are also higher than rates for white business owners.[21] Other analysis has found that limited financing availability also restricts opportunity for growth and the ability to add jobs.[22] Racial gaps exist among women as well. In a survey of female entrepreneurs in New York, 30 percent of white women obtained a bank loan to capitalize their business compared with only 3 percent of black women.[23]

When business owners have access to capital, ownership plays a major role in the attainment of wealth and, by extension, mobility. At the same time, when access to capital is lacking, the mobility-enhancing effects of business ownership are limited, particularly for people of color and women.

How Financial Services Foster Strong Communities

Communities also garner benefits from improved access to capital. As the number of bank branches increases, poverty rates within a given community decrease.[24] Access to affordable credit for mortgages and small businesses also rises in distressed communities when a bank branch is present. Research conducted by the Federal Reserve finds that the presence of a bank branch in a community decreases the cost of mortgage credit.[25] In Appalachia, researchers found a positive relationship between the number of bank branches and the number of small business loans originated.[26] In other parts of the country with high levels of persistent poverty, increased access to financial services has yielded results. For example, the Native American Bank was founded to address the lack of capital available to American Indian communities and has since spurred economic development within them.[27]

Both homeownership and small business development contribute to the stability of places, and capital access facilitates the cultivation of both. Homeowners exhibit higher levels of social participation than renters and are more likely to maintain properties, which could reduce crime within a neighborhood.[28] Small business development activities create jobs (65–90 percent of net new jobs according to one study) and are an important source of employment for historically disadvantaged people.[29] In other words, access to capital and quality financial services is good not just for individuals, but for communities, facilitating opportunities for homeownership and employment. Conversely, the presence of predatory lenders can harm neighborhoods as money that could be invested in the community is redirected to pay excessive fees.[30]

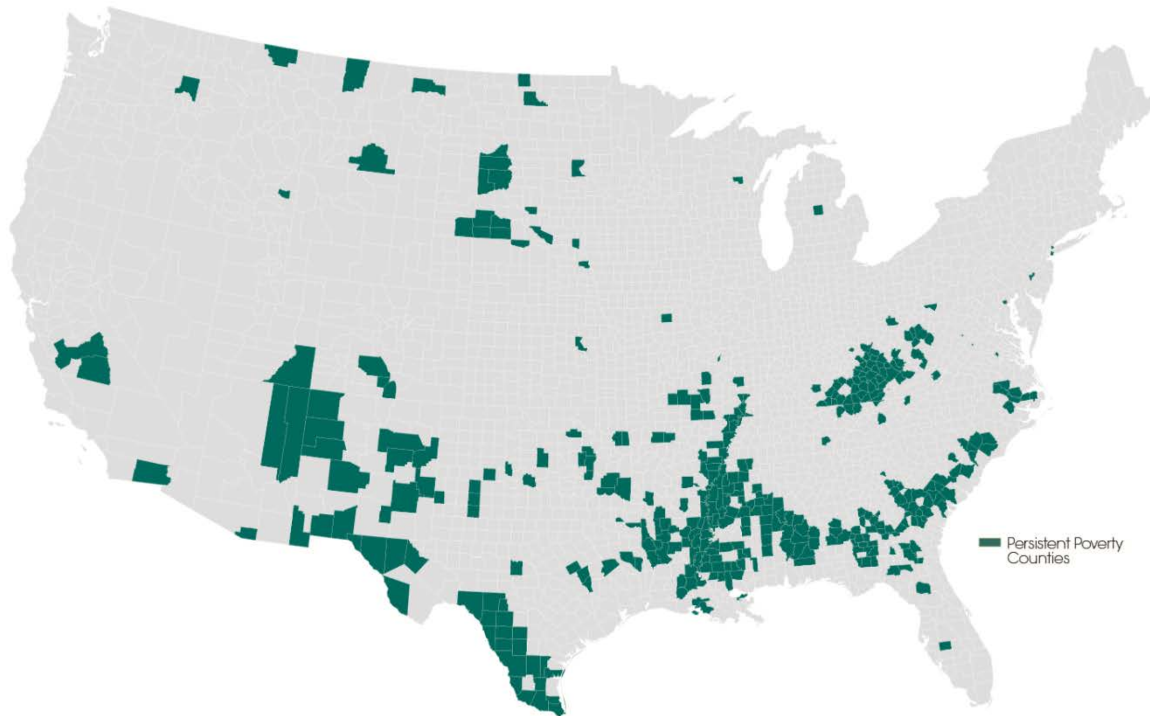
Financial security also strengthens communities by building resident power and voice. People who are more financially secure have higher civic participation rates than those who grapple with financial instability. The Pew Research Center found a 40 percentage-point gap in voter registration between people who were the most financially secure (as measured by having access to checking/savings accounts, credit cards, or retirement savings, and not experiencing financial stress) and the least financially secure. In 2010, 69 percent of the most financially secure citizens voted in the midterm election compared with only 30 percent of the least financially secure.[31] This pattern follows for other forms of political engagement, including contacts with elected officials, donations to political campaigns, and knowledge of the political system, all fundamental to building political power.

Unfortunately, not all communities have equal access to financial services, and the areas experiencing persistent poverty often lack bank branches and other foundational financial services. A scan of the United States shows that 384 counties face persistent poverty, defined as a poverty rate greater than 20 percent

for at least 30 years. Most are in rural areas, with concentrations in Appalachia, the Mississippi Delta and the Black Belt, and the Mexico-United States border, as well as on American Indian reservations (figure 2).

FIGURE 2

Persistent-Poverty Counties



Thirty-six of the nation's 50 least mobile counties—a stunning 72 percent—are in the South. While access to high-quality jobs remains a top mobility challenge for people who live in these rural regions, financial service gaps are also a barrier to economic opportunity (table 2).

Table 2 details the financial service gap by contrasting several indicators of financial service access among the 50 most and least mobile counties in America. The data in the table also show a strong relationship between a lack of mobility, low access to financial services, and a high concentration of people of color. Though this table does not establish a causal relationship, it nonetheless reveals large differences in access to capital between the most and least mobile counties.

TABLE 2

Financial Service Access for the 50 Highest- and Lowest-Mobility US Counties

	# of persistent-poverty counties	Median white population share	Median bank branches per 1,000 residents	Median mortgage originations per 1,000 residents	Median small business lending per 1,000 residents (leading lenders)
50 highest-mobility counties	0	96.5%	0.94	11	$86,836
50 lowest-mobility counties	36	33.2%	0.26	6	$35,235

Source: Hope Policy Institute analysis of data from the Economic Mobility Project, Policy Map, and the US Department of the Treasury Community Development Financial Institutions Fund.
Note: Financial institutions included in the analysis are Bank of America, Capital One Bank, Chase Bank, Citibank, US Bank, and Wells Fargo Bank.

While highly mobile counties have nearly 1 bank branch for every 1,000 residents, the least mobile counties have only 0.26 branches. In other words, the least mobile counties are often home to "banking deserts," census tracts lacking a bank branch within 10 miles of its center. The presence of bank branches matters. When bank or credit unions branches exist in equal or greater number than alternative financial service providers (AFSPs), low-income households have a 30 percent higher rate of asset-building than similar households in banking deserts.[32]

Table 2 also illustrates gaps in mortgage lending and small business lending between the nation's least and most mobile counties. Nearly twice as many mortgages per capita were originated in the most mobile counties than the least mobile counties. Small business lending by the nation's largest lenders in the 50 most mobile counties also significantly outpaced lending by the same financial institutions in the least mobile counties. These indicators of financial service access are also indicative of capital access for community infrastructure. Highly mobile communities have capital to support the construction and maintenance of high-quality education, health care, and cultural facilities. Low-mobility communities have little capital to invest in the structures that facilitate mobility. The absence of capital in high-need places underscores the need for strategies that facilitate financial investments to foster mobility.[33]

Proposal for Increasing Access to Financial Services for Individuals and Communities

We propose improving access to financial services for underserved communities and people living in poverty through four strategies that seek to strengthen existing resources where possible and create new tools where necessary.

Triple Bank Lending, Services, and Investment in Underserved Markets

Traditional banks by far have the greatest ability to invest in ways that close the financial services gap in America, both directly and through investment in community development financial institutions (CDFIs). In 2013, the CDFI industry received $172 million through the Financial Assistance Program of the US Treasury Department's CDFI Fund. In the same year, bank investment in Opportunity Finance Network member CDFIs reached $1.7 billion—nationwide. In 2013, 10 banks made direct community development investments totaling $2.75 billion in Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee. [34]

One mechanism to facilitate increased investment in underserved markets by mainstream banks is the Community Reinvestment Act (CRA), a law intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. It requires that each insured depository institution's CRA record be periodically evaluated by regulatory agencies.

Through the CRA, banks are required to provide services, loans, and investments to the communities in which they do business. Community development is also an important element in CRA evaluations. To receive CRA credit, a bank's activities must have one of the following as its primary purpose: affordable housing, community services targeted to low- and moderate-income people, promoting economic development, or revitalizing or stabilizing low- or moderate-income geographies.[35]

At the same time, the CRA has its limits. If a bank has no physical presence in a region, then it is not held accountable for reinvesting there. As a result, entire regions may lie out of reach of the CRA's incentives. For

example, among the 20 largest banks located in the Southeast, only one has an assessment area that includes the Mississippi Delta—one of the nation's most persistently poor regions.[36]

The limitations of the CRA are particularly evident in rural areas. A study of rural mortgage lending conducted by the Housing Assistance Council identified a total of 6,814 rural census tracts with "high credit needs." Approximately 42 percent of rural and small town residents lived in high-credit-need census tracts. Yet only 29 percent of all mortgage lending in rural areas occurred in these high-credit-need areas.[37]

Role of Philanthropy: Support Education around the Community Reinvestment Act

Many provisions in the CRA hold banks accountable to the communities where they have branches. But since the act's passage 40 years ago, the financial service market place has evolved significantly. Bank branches have closed around the country, and many transactions take place online. Philanthropy could support research and education efforts that highlight which communities are least well served under the current legislation and the types of changes that could increase the flow of capital into persistently poor and rural communities.

Role of Government: Focus CRA Discussions on Rural Communities

As Congress and regulators consider the CRA, they can evaluate ways to strengthen the law's ability to increase the provision of financial services in low-income communities and communities of color, particularly rural communities. Incentivizing and holding banks accountable for CRA service, lending, and investments not only where they have a physical branch but also where they lend and collect deposits would benefit underbanked and low-income rural areas.

Strengthen Community Development Financial Institutions

Across the United States there are approximately 1,100 CDFIs, federally certified entities with a mission to address the financial needs of people and places neglected by traditional financial institutions. They include public and nonprofit loan funds, regulated banks and credit unions, micro business development organizations, and financial technology companies. Though their individual business models vary, all CDFIs are committed to ensuring that at least 60 percent of their financing activities is in low-income, high-unemployment areas or benefits an underserved target market.

Community development financial institutions are a critical tool to attract and deliver much-needed financial services and investments in low-income and distressed communities. These institutions provide a range of services, from savings accounts and mortgages to loans for small businesses and vital community facilities, including schools, grocery stores, and affordable housing. As an industry, they have invested significantly in underserved communities. According to the Opportunity Finance Network, its members have invested $49 billion since the inception of the CDFI Fund in 1994. As such, CDFIs are a critical tool in facilitating mobility in low-income communities. The ability of such lenders to support distressed communities has positioned them as models of resilience in disaster planning and gives them a robust legacy of assistance in communities and among people with few or no resources to recover.[38]

Expanded investment in CDFIs also represents an opportunity to build on the momentum of several recent and ongoing initiatives launched and managed by large national banks and philanthropy. In 2015, Wells Fargo announced the Wells Works for Small Business Diverse Community Capital program. Through the program, Wells Fargo made $75 million available for CDFIs ($50 million in debt and $25 million in grants) to expand lending to small businesses with a particular emphasis on African American–owned businesses.

Since 2010 the Goldman Sachs 10,000 Small Businesses initiative has connected entrepreneurs to business education, a network of support, and capital via CDFIs. Since its launch in New York City, the program has expanded to 33 sites nationwide, supported more than 8,000 graduates, and documented gains in revenue and job creation among the participants who complete the program.

Recognizing that many disadvantaged neighborhoods were being left behind in the economic recovery, in 2016 JPMorgan Chase launched Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods), a $125 million, five-year philanthropic initiative to support and catalyze locally driven solutions for revitalizing distressed neighborhoods across the United States. JPMC provides CDFIs with capital that encourages them to pool resources, expand lending, and leverage other capital to finance health and education facilities, retail centers, and community services in target neighborhoods.

The Annie E. Casey and Kresge Foundations along with Prudential are collaborating on a $100 million pool of capital to increase economic opportunities for people of color, with a focus on the South. Prudential brings to this partnership flexible investment capital and deep experience in community development and impact investing. Annie E. Casey and Kresge are supporting this effort with grants and guarantees to further expand the universe of possible transactions.

These examples illustrate the potential for collaboration among financial institutions, government foundations, and CDFIs in expanding access to financial services in economically distressed areas.

Philanthropy has also come together in recent years to invest in strategic opportunities in persistent-poverty areas. Organized and managed by the Mary Reynolds Babcock Foundation, in 2016 the Uplift America Fund pooled $24 million from regional and national banks and foundations to strengthen the balance sheets and operational capacity of CDFIs and leverage $500 million in low-cost debt from USDA for financing community facilities such as schools, health care centers, and nonprofit organizations. In addition, Bank of America provided a $100 million partial payment guaranty to facilitate this initiative.[39]

Role of Philanthropy: Create an Economic Mobility Equity and Investment Fund

Foundations have played a critical role in the creation and growth of the CDFI industry. This has included grant funding and patient debt that helps CDFIs start and deepen their impact. By 2013, program-related investments from foundations eclipsed $400 million for members of the Opportunity Finance Network, the industry's primary trade association. But place matters for both philanthropic and bank investment.[40] Analysis conducted by the Federal Reserve found a significant correlation between the presence of a large foundation in a metropolitan area and the level of community and economic development foundation investments.[41] Also, research by the Urban Institute found the following: "Half of all US counties saw annual CDFI lending activity that amounted to less than $7 for every person under 200 percent of the federal poverty level between 2011 and 2015. At the same time, about 10 percent of counties received $114 or more in loans annually for every person under 200 percent of the federal poverty level."[42]

Given the evidence of lower investment in persistently poor areas, foundations should create a $1 billion fund to support the expansion and capacity building of CDFIs with successful track records of capital deployment in such underresourced areas as the Deep South, Indian Country, and Appalachia. This fund could be leveraged 10 times by CDFIs, creating $10 billion in development finance opportunities in the nation's least mobile communities.

Role of Government: Continue to be a Funding Partner

A primary source of capital for CDFIs is the CDFI Fund. An agency of the US Treasury Department, the CDFI Fund has awarded $2 billion in financial and technical assistance to certified institutions since 2014, producing a substantial impact. In 2016, lenders that received funding from the CDFI Fund originated $3.6 billion in loans and financed more than 13,000 businesses and 33,000 units of affordable housing.[43] However, the demand for CDFI Fund resources far exceeds the supply. In 2016, CDFIs applying for Treasury funding requested more than four times the amount available, which is currently $248 million.[44]

We recommend studying the potential impact on underserved communities of funding the CDFI Fund at $1 billion, a level that would meet demonstrated demand.

Congressional appropriators have demonstrated a willingness to prioritize investments in persistently poor places. The 2015 omnibus spending bill included language in the statement of managers that directed the Treasury department to "take into consideration the unique conditions, challenges and scale of non-metropolitan and rural areas" and "to support projects that serve populations living in persistent-poverty counties as required by Public Law 112-74." Subsequently, spending bills for both the US Department of Agriculture Rural Development and the US Treasury CDFI Fund directed the agencies to spend 10 percent of new unobligated funds and award funds, respectively, to persistent-poverty counties. The actions of Congress in consecutive spending bills to emphasize investments in persistently poor areas present an opportunity on which to build.

Establish Universal Basic Accounts for All Americans

We recommend encouraging or requiring all financial institutions that receive federal deposit insurance to offer all customers a "universal basic account," a free account that is simple, transparent, and does not charge overdraft or other hidden fees. The accounts would ensure that all low-income Americans have access to the financial tools and consumer protections inherent in the banking system, and they would mitigate the impact of high-cost and abusive financial practices.

These safe, affordable bank accounts could save the 15.6 million Americans adults who currently lack access to such a service hundreds of dollars a year and tens of thousands of dollars over their lifetimes. This money could go toward food, housing, and other basic needs. (Please see the appendix for a more detailed analysis of the costs of predatory financial services and products.) The savings would help millions of Americans better serve as their own safety net, potentially decreasing the need for public assistance.

Universal accounts are also a mechanism to strengthen other strategies used to encourage economic mobility. The federal child tax credit, for example, could be even more effective at delivering vital cash to low-income families if those families could deposit and manage their refund in a safe, affordable account as opposed to the high-cost products that take a portion of the refund through costly fees. See the Partnership idea paper about the child tax credit for more information.[45]

Role of Philanthropy: Fund Universal Basic Account Demonstrations

The philanthropic community should fund two demonstrations of the universal basic account proposal along with a rigorous evaluation to determine the effects of increased account access on the mobility of families living in high-poverty places. One universal basic account demonstration should be implemented in an urban area and the other in a rural area. The demonstrations should be conducted in partnership with financial institutions that use federal deposit insurance.

Role of Government: Examine the Feasibility of Universal Basic Accounts

Federal banking regulators could convene community development stakeholders to develop, inform, and refine a proposal for universal basic accounts. Congress could explore legislative options by holding hearings and/or requesting further study of the concept.

Cultivate a Fair and Responsible Financial Marketplace for all Americans

Financial service providers—both those that operate within traditional markets and those that target underserved and distressed communities—must be leaders in ensuring that consumers are protected from abusive practices that strip wealth and limit economic mobility. In the absence of such leadership by the financial industry or a regulatory environment that mitigates predatory behavior, the specter of high fees, recurring debt, and the inability to become economically mobile remains a predictable and devastating reality.

The Consumer Financial Protection Bureau (CFPB) was established in response to the 2008 financial crisis as a single point of accountability in the federal government for protecting consumers. The CFPB is authorized to conduct rulemaking, supervision, and enforcement of federal consumer financial laws; handle consumer complaints and inquiries; promote financial education; research consumer behavior; and monitor financial markets for risks to consumers. In its short history, the CFPB has substantially curtailed abusive practices in the financial services marketplace and addressed a broad range of products and activities that influence economic mobility, including mortgage loans, auto loans, student loans, debt collection, and payday lending. According to the Bureau's six-year report, "the CFPB's actions have resulted in $12 billion in relief for more than 29 million harmed customers."[46]

However, several steps have been taken that limit its authority and roll back several policies supported by consumer advocates.

Given this shift, responsible lenders and consumer advocates should consider a more active role in ensuring that consumers have access to fair, responsible financial services.

Role of Philanthropy: Support a National Campaign to Promote Responsible Financial Services

Over the past six years the CFPB substantially increased awareness among financial institutions and consumers about responsible financial practices. This includes undertaking robust consumer awareness campaigns and supporting the research and development of products and services that benefit consumers, such as innovation in the area of financial technology.

CDFIs and banks that act responsibly are best positioned to ensure that consumers have access to the type of financial services that help them climb the mobility ladder. By doing so, they also reduce the appeal of predatory alternatives. Philanthropy should invest in strategies that support continued innovation of financial services that are fair and responsible and, through an awareness campaign, educate and inform vulnerable populations, such as low-income people, youth, the elderly, and people of color, about the importance and availability of non-predatory alternatives.

Role of Government: Protect Consumers

We recommend that Congress and bank regulatory agencies work together to develop solutions that encourage and incentivize service providers to protect consumers from abusive financial practices.

Appendix. Analysis of Fees Paid by Unbanked and Underbanked Consumers for Abusive Financial Products and Services

Below are the annual costs of fees that an un- or underbanked consumer would spend if they were an average user of each of these alternative financial services.

TABLE A.1

Estimated Annual Fees Paid by Un- and Underbanked Consumers for Select Alternative Financial Services

	Unbanked	Underbanked
Annual cost in fees per person using each service		
Money orders	$19.20	$19.20
Check cashers	$253.44	$398.27
Payday lenders	$520.00	$520.00
Tax refund loan	$30.00	$30.00
Total cost of annual fees if all services were used	**$822.64**	**$967.47**

Source: US Partnership on Mobility from Poverty calculations of data from Bankrate.com, the National Consumer Law Center, the Pew Charitable Trusts, and the United States Postal Service Office of the Inspector General.

Notes: Money orders calculation is based on $1.20 per transaction (US Postal Service minimum fee) times an average user's rate of 16 transactions a year. Check cashers calculation is based on estimated post-tax income, assuming 26 paychecks per year at a rate of 1.5 percent in fees charged. Payday lenders' fees are based on Pew's calculations of fees that the average payday loan consumer pays per year. Tax refund loan fees are based on the National Consumer Law Center's citation of the minimum fee that a consumer pays.

Let's take this one step further. What if we applied the incidence rates of the unbanked population's use of alternative financial services to these fees and calculated how much this population spent in a year? Table A.2 presents the estimated costs that the whole unbanked population may be paying every year in these fees. The unbanked and the communities in which they live are losing over 1.9 billion dollars every year to fees that could be reinvested in their families, neighborhoods, cities and towns, and counties.

TABLE A.2

Estimated Total Spent on Alternative Financial Service Provider (AFSP) Fees by the Unbanked Population

Estimated number of the adult population who are unbanked: 15,600,000

	Unbanked use of each AFSP	Fees spent per person annually	Estimated total spent annually among the unbanked on AFSP fees
Used money orders	43.9%	$19.20	$131,459,328
Used check cashers	24.7%	$253.44	$975,778,713
Used payday lenders	9.8%	$520.00	$797,409,600
Used tax refund loan	7.4%	$30.00	$34,538,400
Estimated annual fees spent by the unbanked population on AFS			**$1,939,186,041**

Sources: Number of unbanked adults is from FDIC 2015 survey estimates. Incidence rates of unbanked usage of AFSPs are from the authors' analysis of the 2016 Federal Reserve's Survey of Household Economic Dynamics.

Note: Calculations of totals spent are based on the incidence rate for the population multiplied by the cost in fees spent by each person.

Finally, what if this same average unbanked person saved the estimated money spent on AFS fees ($822.64) because he or she had a bank account with a credit union or community bank? What if by saving money on fees and by being a part of a banking community, this formerly unbanked person could save an additional $500 over the year, for a total of $1,322.64? Assuming this money is held for one year in a savings account paying 1 percent interest, the person would have $1,336 by the end of the year from compound interest. If this person put that money into a retirement account indexed to the S&P 500 with a historical return of 7 percent, by the end of a 40-year working career, that money would be worth $21,574 (table A.3).

TABLE A.3

Hypothetical Future Values of Money Saved by an Unbanked Person

	Unbanked
Average estimated savings	$500.00
Average AFS fees paid	$822.64
Average savings plus total annual fees spent	$1,322.64
Future value (1% interest; one year)	$1,335.93
Future value (7% returns; one year)	$1,418.26
Future value (1% interest; 40 years)	$1,972.82
Future value (7% returns; 40 years)	$21,574.19

Note: All interest calculations assume monthly compounding.

Notes

1. Persistent-poverty counties are counties and parishes where the poverty rates has exceeded 20 percent for three decades in a row.
2. Jeanne M. Hogarth and Kevin H. O' Donnell, "Banking Relationships of Lower-Income Families and the Governmental Trend toward Electronic Payment," *Federal Reserve Bulletin* (July 1999): 459–73.
3. CFPB (Consumer Financial Protection Bureau), *Empowering Low Income and Economically Vulnerable Consumers* (Washington, DC: CFPB, 2013).
4. FDIC (Federal Deposit Insurance Corporation), *2015 FDIC National Survey of Unbanked and Underbanked Households: Appendix Tables* (Washington, DC: FDIC, 2016).
5. Rakesh Kochar, Richard Fry, and Paul Taylor, *Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics* (Washington, DC: Pew Research Center, 2011), chapter 4.
6. Tracy M. Turner and Heather Luea, "Homeownership, Wealth Accumulation and Income Status," *Journal of Housing Economics* 18, no. 2 (2009): 104–11.
7. Richard K. Green and Michelle J. White, "Measuring the Benefits of Homeowning: Effects on Children," *Journal of Urban Economics* 41, no. 3 (2997): 441–61.
8. N. Edward Coulson and Lynn M. Fisher, "Tenure Choice and Labour Market Outcomes," *Housing Studies* 17, no. 1 (2002): 35–49.
9. Donald R. Haurin, Toby L. Parcel, and R. Jean Haurin, "Does Homeownership Affect Children's Outcomes?" *Real Estate Economics* 30, no. 4 (2002): 635–66.
10. John Cairney, "Housing Tenure and Psychological Well-Being During Adolescence," *Environment and Behavior* 37, no. 4 (2005): 552–64.
11. William M. Rohe and Mark Lindblad, "Reexamining the Social Benefits of Homeownership after the Housing Crisis" (Cambridge, MA: Joint Center for Housing Studies of Harvard University, 2013).
12. Kim Manturuk, Mark Lindblad, and Roberto G. Quercia, "Homeownership and Local Voting in Disadvantaged Urban Neighborhoods," *Cityscape* 11, no. 3 (2009): 213–30.
13. Bing Bai, Jun Zhu, and Laurie Goodman, "A Closer Look at the Data on First-Time Homebuyers" (Washington, DC: Urban Institute, 2015).
14. O. Emre Ergungor, "Bank Branch Presence and Access to Credit in Low-to-Moderate Income Neighborhoods," Working Paper 06-16 (Cleveland, OH: Federal Reserve Bank of Cleveland, 2006).
15. "Income Patching among Microentrepreneurs," Field Trendline Series, Issue 4 (Aspen, CO: Aspen Institute, 2013).
16. Diego Quezada, "Small Businesses Serve as a Tool to Reduce Wealth Inequality," Prosperity Now blog, May 2, 2017, https://prosperitynow.org/blog/small-businesses-serve-tool-reduce-wealth-inequality.
17. Emily Fetsch, "Opportunity Awaits: Native Americans and Entrepreneurship," *Growthology* (blog), Ewing Marion Kauffman Foundation, July 23, 2015, http://www.kauffman.org/blogs/growthology/2015/07/opportunity-awaits-native-americans-and-entrepreneurship.
18. AEO (Association for Enterprise Opportunity), *The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success* (Washington, DC: AEO, 2017).
19. Lucy J. Reuben and Pamela E. Queen, "Capital Constraints and Industry Mix Implications for African-American Business Success," *Review of Black Political Economy* 42, no. 4 (2015): 355–78.
20. AEO, *Tapestry of Black Business Ownership in America*.

[21] William D. Bradford and Naranchimeg Mijid, "State of the Field: Race," Kauffman Foundation, last updated September 6, 2016, http://www.kauffman.org/microsites/state-of-the-field/topics/background-of-entrepreneurs/demographics/race

[22] AEO, *Tapestry of Black Business Ownership in America*.

[23] Andrea E. Smith-Hunter and Robert L. Boyd, "Applying Theories of Entrepreneurship to a Comparative Analysis of White and Minority Women Business Owners," *Women in Management Review* 19, no. 1 (2004): 18–28.

[24] Josh Silver and Archana Pradhan, "Why Branch Closures Are Bad for Communities" (Washington, DC: National Community Reinvestment Coalition, 2012).

[25] Ergungor, "Bank Branch Presence and Access to Credit."

[26] Josh Silver and Spence M. Cowan, "Access to Capital and Credit for Small Businesses in Appalachia" (Washington, DC: National Community Reinvestment Coalition, 2007).

[27] John Swan, "Native American Bank: Banking the Unbanked," *Communities and Banking* (Federal Reserve Bank of Boston), Summer 2008, 20–23.

[28] Dustin C. Read and Alexandra Tsvetkova, "Housing and Social Issues: A Cross Disciplinary Review of the Existing Literature," *Journal of Real Estate Literature* 20, no. 1 (2012): 3–35.

[29] Reuben and Queen, "Capital Constraints and Industry Mix Implications."

[30] Julie Birkenmaier and Sabrina Watson Tyuse, "Affordable Financial Services and Credit for the Poor: The Foundation of Asset Building," *Journal of Community Practice* 13, no. 1 (2005): 69–86.

[31] Pew Research Center, *The Politics of Financial Insecurity: A Democratic Tilt, Undercut by Low Participation* (Washington, DC: Pew Research Center, 2015).

[32] Terry Friedline, Mathieu Despard, and Stacia West, *Investing in the Future: A Geographic Investigation of Brick-and-Mortar Financial Services and Households' Financial Health* (Lawrence: University of Kansas, Center on Assets, Education, & Inclusion, 2017).

[33] Mehrsa Baradaran, "How the Poor Got Cut Out of Banking," *Emory Law Journal* 62, no. 3 (2013): 483–548.

[34] William Lambe, "Community Reinvestment Act: How Much Is It Worth in the Southeast?" *Partners Update*, Federal Reserve Bank of Atlanta, September/October 2015, https://www.frbatlanta.org/community-development/publications/partners-update/2015/05/151016-community-reinvestment-act-how-much-is-it-worth-in-the-southeast.aspx.

[35] "Communityi Reinvestment Act (CRA)," FDIC Division of Depositor and Consumer Protection, n.d., https://www.fdic.gov/regulations/resources/director/presentations/cra.pdf

[36] William Lambe, Jessica Farr, and Mindy Kao, "Community Reinvestment Act: Geographies and Strategies in the Southeast," *Partners Update*, Federal Reserve Bank of Atlanta, July/August 2015, https://www.frbatlanta.org/community-development/publications/partners-update/2015/04/150824-cra-geographies-and-strategies-in-southeast.aspx

[37] Keith Wiley, Lance George, and Leslie Strauss, *CRA in Rural America: The Community Reinvestment Act and Mortgage Lending in Rural Communities* (Washington, DC: Housing Assistance Council, 2015).

[38] See, for example, US Department of the Treasury CDFI Fund, *Community Development Financial Institutions Response to Superstorm Sandy: Impact Assessment* (Washington, DC: US Department of the Treasury, 2012); Arabella Advisors, *Evaluating Post-Hurricane Katrina Investments: Strengthening Decision-Making and Organizational Impact* (Chicago: John D. and Catherine T. MacArthur Foundation, 2012); and *After the Storm* (Jackson, MS: Hope Enterprise Corporation, 2015).

[39] Per the Uplift America website, http://upliftamerica.org

[40] Jeremy Nowak, *CDFI Futures: An Industry at a Crossroads* (Philadelphia: Opportunity Finance Network, 2016.

[41] Keith Wardrip, William Lambe, and Mels de Zeeuw. "Following the Money: An Analysis of Foundation Grantmaking for Community and Economic Development," *Foundation Review* 8, no. 3 (2016): 51–65.

[42] Brett Theodos and Eric Hangen, "Expanding Community Development Financial Institutions" (Washington, DC: Urban Institute, 2017).

[43] US Department of the Treasury CDFI Fund, "Build Your Community-Based Financial Institution with Capital from the CDFI Fund," fact sheet (Washington, DC: US Department of the Treasury, n.d.).

[44] US Department of the Treasury CDFI Fund, *Investing in Opportunity: Fiscal Year 2016 Year in Review* (Washington, DC: US Department of the Treasury, 2017).

[45] Robert Greenstein, Elaine Maag, Chye-Ching Huang, and Chloe Cho, *Improving the Child Tax Credit for Very Low–Income Families* (Washington, DC: US Partnership on Mobility from Poverty, forthcoming), www.mobilitypartership.org.

[46] "The CFPB: Six years serving consumers," Consumer Financial Protection Bureau, July 2017, p. 1.

www.urban.org/mobilitypartnership