

# Closing the Financial Services Gap

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Having access to a mainstream bank account, credit, and other financial services is vital to upward mobility. Safe, affordable financial services facilitate saving, homeownership, and small business ownership, and thus financial stability. That stability gives people room to plan for the future and weather setbacks. Yet far too many low-income families lack such access.

## The Problem

Low-income families and communities are more likely to lack access to financial services.

- One in four American households—33.5 million—lack access to mainstream financial services.
- Each year, the average unbanked American spends about \$1,000 on high-cost, alternative financial products like money orders, check cashing, and fees from payday loans. That amounts to \$1.9 billion annually.
- Homeownership builds wealth but is out of reach without access to a mortgage. Nearly twice as many mortgages are issued in US counties with high economic mobility than those with low mobility.

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### One in four American households are unbanked or underbanked.

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- Business ownership dramatically narrows the asset gap between white and African American people, but access to credit is essential. The small business lending rate more than doubles in counties with high economic mobility.

- High-mobility 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 structures that facilitate mobility.

## The Solution

Greater access to banks and mainstream financial services can improve the economic mobility of low-income families and communities.

We propose four ideas that capitalize on the nation's existing financial service infrastructure and, where necessary, create new tools.

1. **Triple bank lending, services, and investment in underserved markets.** The federal Community Reinvestment Act could help more communities by emphasizing service, lending, and investments in places where banks generate revenue—not only where they have physical branches.
2. **Strengthen community development financial institutions (CDFIs).** CDFIs play a vital role in the nation's financial system by ensuring that services such as deposit accounts, mortgages, small business loans, and financing for community facilities are accessible to underserved people and places.

3. **Establish universal basic accounts for all Americans.** Require or encourage 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.
4. **Cultivate a fair and responsible marketplace for all Americans.** Financial service providers must be leaders in ensuring that consumers are protected from abusive financial practices that strip wealth and limit economic mobility.

#### WHAT PHILANTHROPY CAN DO

Philanthropy can bolster the impact of the Community Reinvestment Act by funding efforts that educate consumers, industry, and policymakers on its importance. Foundations can create a \$1 billion fund to expand the impact of CDFIs in underresourced areas and fund demonstration projects for universal basic accounts. Finally, philanthropy can invest in the continued innovation of responsible financial tools and in a national campaign to raise awareness about the importance and availability of nonpredatory financial products and services.

#### WHAT GOVERNMENT CAN DO

Congress and regulators can prioritize the needs of low-income rural communities as they consider updates to the Community Reinvestment Act. Congress can also study the potential impact on low-income communities of increasing CDFI Fund appropriations to \$1 billion annually, a level in line with current demand. Regulators can convene stakeholders to develop and refine a plan for a universal basic account. Finally, Congress and bank regulators can work together to develop solutions that encourage and incentivize service providers to protect consumers from abusive financial practices.

#### WHAT DOES “MOBILITY” FROM POVERTY MEAN?

The US Partnership on Mobility from Poverty’s definition of mobility has three core principles: economic success, power and autonomy, and being valued in community. These principles drive five mutually reinforcing strategies:

- Change the narrative
- Create access to good jobs
- Ensure zip code is not destiny
- Provide support that empowers
- Transform data use

Closing the financial services gap is part of the strategy to ensure zip code is not destiny.

#### HOW CLOSING THE FINANCIAL SERVICES GAP CAN IMPROVE MOBILITY

- **Economic success:** Access to financial services creates economic stability and resilience. Consumers will save billions in fees.
- **Power and autonomy:** As families become more financially secure, they have more influence and control over their circumstances and greater political voice.
- **Being valued in community:** More people will feel there is a place for them in the mainstream financial institutions that serve their community.

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This brief summarizes the paper *Opening Mobility Pathways by Closing the Financial Services Gap*. The paper lists sources for the research summarized here.

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With funding from the Bill & Melinda Gates Foundation, the Urban Institute is supporting the US Partnership on Mobility from Poverty, 24 leading voices representing academia, practice, the faith community, philanthropy, and the private sector. The views expressed here are those of the authors and do not necessarily represent the views of all Partnership members.