

STATE OF THE DREAM 2015

Underbanked & Overcharged

FOREWORD BY

VAN JONES

Principal Author:
Mike Leyba



State of the Dream 2015: UNDERBANKED AND OVERCHARGED

FOREWORD

Dreams are powerful things. Dreams reveal that which is most human about us: our hopes, our fears, and our vision for a better tomorrow. Even though it has been 51 years since Dr. Martin Luther King, Jr. famously shared his dream of an America made available to all, regardless of skin color or economic status, we are still fighting for many of the same principles that the Civil Rights Movement stood for—and many are seeing and experiencing much of the social strife that rises to the surface when people unite to challenge the status quo.

The marches that have been organized across the nation in the wake of the killings of Eric Garner, Trayvon Martin, Michael Brown and countless other men and women of color are not just responses to any one violent act or extraordinary situation—they are result of centuries worth of unequal treatment and political exclusion, and a pervasive sense of economic hopelessness in communities of color.

That is why this report, **State of the Dream 2015: Unbanked and Overcharged**, is so important to our understanding of the current political moment. The historic exclusion of non-whites in housing, credit, banking, and politics have left many people of color behind. Dr. King's dream was a country in which ordinary people—not just those with great wealth—could work hard, play by the rules, and make a better life for themselves and their families. But today, those who work the hardest are falling the furthest behind. Meanwhile, those whose vast fortunes do the work for them, those who have the rules tilted heavily in their favor, are the ones getting ahead.

We know exactly who today's dream killers are: banks on Wall Street, payday lenders, check cashers, auto title lenders, those in the student loan business—all the companies that drain the wealth of marginalized individuals in the name of profit or shareholder returns. The workers that are economically preyed upon—these dreamers—deserve better.

This powerful report by **United for a Fair Economy** sheds light on the racial aspects of the 93 million unbanked and underbanked in a way that will help change the conversation, and begin to point the way toward a truly inclusive and democratic economic system.



Christelle Adrien
*Operations & Development
Associate*

Jeannette Huevo
*Interim Co-Executive Director
& Senior Popular Educator*

Mike Lapham
*Interim Co-Executive Director
& Director, Responsible Wealth*

Mike Leyba
Director of Communications

Riahl O'Malley
Popular Educator

Steve Schnapp
Senior Popular Educator

Suzanna Schell
Director of Development

Michael Young
*Director, Tax Fairness
Organizing Collaborative*

*United for a Fair Economy
is a national, independent,
nonpartisan, 501(c)(3) organization.*

© United for a Fair Economy,
January 14, 2015

-Van Jones

ACKNOWLEDGMENTS

This report is the result of months of collaboration funded entirely from individual contributions made to United for a Fair Economy.

To our donors who have made this report possible, thank you.

Special thanks to Bruce McFarlane, Jon Delich, and the research staff at LitINomics: Amanda Taylor, Susan Popal, Chris Adgar-Beal, Brandon Knaus, Tina Parija, Josh Weil, Chelsea Meyer, and James Becker.

Cover art is provided by Marlena Agency (www.marlenaagency.com) and the artist is Francesco Bongiorno. Thank you for making this substantial report a beautiful one.

Authors of this report are Mike Leyba, Michael Young, Mike Lapham, and Steve Schnapp. Sections also provided by Mark Dimondstein of the American Postal Workers Union, Suzanne Reisman of the Cities for Financial Empowerment Fund, and Marc Armstrong of Commonomics USA.

Editors and proofreaders were Monique Nguyen, Suzanna Schell and Mike Lapham.

A special thanks to the United for a Fair Economy Board of Directors for their editorial guidance and commitment to this report.

Finally, thanks to our team of translators and interpreters.

ABOUT UNITED FOR A FAIR ECONOMY

United for a Fair Economy challenges the concentration of wealth and power that corrupts democracy, deepens the racial divide and tears communities apart. We use popular economics education, trainings, and creative communications to support social movements working for a resilient, sustainable and equitable economy.

We believe that a fair economy is built around:

Jobs with dignity and living wages, where workers have the democratic right to organize and share the wealth produced by their labor.

A robust public sector that works for the common good, funded through progressive taxes and accountable to the people.

Equal opportunity and equal justice for people who have been marginalized in our society based on gender, sexual orientation, race, nationality, and social class.

Sustainability and equity, where individuals do not accumulate excesses of wealth to the detriment of others or the planet.

EXECUTIVE SUMMARY

Purpose of this Report

We are viewing this year's State of the Dream report as the kickoff of an ongoing project, to be followed (in the weeks and months and possibly years ahead) with continued research, policy recommendations, and organizing efforts. We hope to facilitate the flow of innovative ideas for how to rein in predatory banks and lenders that are stripping wealth out of the communities that can least afford it, and instead start to build wealth in those communities.

We hope this report will shed light on the inequity of access in the banking sector, as well as motivate individuals and organizations to work together to find both transitional and transformational solutions to the problem.

Ensuring equal access to the financial tools that enable us to build wealth is a matter of justice and fairness. Everyone, regardless of income or race, should have access to affordable banking services and the ability to access credit and build assets.

Over 93 million people are doing most or all of their banking through predatory fringe lenders and they are paying an average of \$103 billion per year in fees and interest. This is more money lost in poor communities than the United States spends on domestic food aid annually. We as a society end up subsidizing that lost income (an average of \$3,029 per affected household) through a social safety net that is already underfunded and overcapacity.

Overview of Findings

Here's a summary of what we found:

- Historically, people of color in this country have been systematically prevented from accumulating wealth, through a combination of overt and implicit practices. (Section 1)
- In 2013, White households had \$141,900 median wealth, while African-American families had just \$11,000 median wealth and Latino households had \$13,700 median wealth. (p. 6)
- 16.7 million adult Americans are “unbanked”; that is, nobody in their household has a checking account. (p. 11)
- An additional 50.9 million adults are “underbanked”; i.e., they have a checking account, but also rely on a fringe banking sector to meet their financial needs. (p. 11)
- 53.6% of Black households and 46.4% of Latino households are unbanked or underbanked. (p. 14)
- The most common reason for being unbanked is not having enough money to meet minimum balance requirements and/or to avoid overdraft fees. Other reasons include not trusting banks; high fees; privacy concerns; and identification/credit/banking history problems. (p. 11)
- Language is highly correlated to being underserved in the banking sector as well: 58.6% of Spanish-speaking households are either unbanked or underbanked. (p. 13)
- There are fewer full-service bank branches in neighborhoods of color than in White neighborhoods. (p. 11)
- In 2013, the number of federally-insured financial institutions fell to its lowest level since 1934. Rural areas are especially notorious for being “banking deserts” and 85% of the poorest counties in the US are rural. (p. 11)
- Both the unbanked and underbanked rely on a variety of “Alternative Financial Service Providers” (AFSPs) to provide some portion of their banking services via check cashers, payday lenders, auto title lenders, pawn shops, etc. Each year, over \$103 billion is stripped from these people and their communities and ends up in the hands of Wall Street. For the underserved, there is little opportunity to create a credit history, have access to affordable, safe and sustainable financial services, or build assets over time. (p. 11)

- The predatory practices of payday lenders, check cashers, auto title loan providers and rent-to-own stores are largely unregulated. (p. 11)
- Payday lenders are nearly eight times as concentrated in neighborhoods with the largest shares of American Americans and Latinos as compared to White neighborhoods. (p. 17)
- Payday lenders cluster in low to moderate-income neighborhoods in urban areas, in rural communities, around concentrations of low-wage workers, and near military bases. (p. 19)
- 93 percent of all bank branch closings from late 2008 to 2012 were in zip codes with below-median household income levels; meanwhile, 38% of all post offices in the US are in zip codes without a single bank branch; 21% are in zip codes with only one bank branch. (p. 21)
- The cost of having people excluded from the mainstream banking system is \$103 billion annually, larger than the US government spends on all food-related aid domestically. (p. 17)

Recommendations

The report looks at three programs that can each help address the complex problem of financial exclusion:

- One proposal that United for a Fair Economy is actively promoting is having the 31,000 branches of the United States Postal Service expand their offering of payment and banking services to include consumer-driven checking, debit, and savings accounts. There is a history of Postal Banking in the US, and many postal systems around the world offer financial services and play important roles in advancing financial inclusion. Additionally, financial services currently account for 14.5% of revenue for postal organizations in industrialized countries. (p. 21)
- Another successful model is the Bank On program, which has helped financially underserved households open more than half a million new transactional accounts in 100 cities over the past nine years. (p. 22)
- We also discuss the role Lending Circles play in helping low-income or immigrant individuals access credit and build a positive credit history. (p. 22)

In addition to these programmatic solutions, we discuss a number of legislative or policy solutions to the problem:

- Capping interest rates and limiting the amount and length of payday loans helps limit the amount of fees and interest paid by borrowers. (p. 23)
- The Consumer Financial Protection Bureau (CFPB) has the authority to issue rules and regulations to rein in unscrupulous practices of the payday lending industry and help end the cycle of debt that traps customers. (p. 24)
- The Community Reinvestment Act (CRA) needs to be modernized and strengthened to reflect current realities in the banking sector. A stronger CRA would help ensure that banks are serving underbanked communities and providing access to banking and loans for people of all races and income levels. (p. 24)

Again, we view this year's State of the Dream report as an ongoing project aimed at broadening understanding and seeking both transitional and transformative solutions to the lack of banking access in this country. We invite readers to propose additional solutions to the problem, share resources with us, help us broaden understanding of this issue, and join in organizing efforts to promote the solutions presented in this report.

Editor's Note: Highlights of this report can be found in English, Spanish, Chinese and French and are available upon request. More information about obtaining copies of these or any additional educational materials can be found on the back cover of this report.

SECTION 1: WEALTH IN THE UNITED STATES

“If our whole nation had an unemployment rate comparable to what the Negro is facing in terms of unemployment, we would be in a staggering depression, even greater and more devastating than the depression of the Thirties. So the economic problem is a very serious problem.

But... the problems the Negro faces economically are not merely unemployment, but as we say all the time, under-employment. Most people feel that all of the poverty-stricken people are people who are out of jobs. The fact is that more than half of poverty stricken people in our country are working every day, but earning so little that they cannot function meaningfully in society, and cannot purchase the basic necessities of life.”

-Rev. Martin Luther King, Jr. at SCLC Staff Retreat, Monday, November 14, 1966

This quote, delivered by Dr. King in front of his staff, came at a time when the United States, particularly in northern cities such as Chicago, were at a boiling point. Only months before, the Southern Christian Leadership Conference (SCLC) had announced plans for the Chicago Freedom Movement, a campaign that looked to “eradicate a vicious system that seeks to colonize thousands of Negroes within a slum environment” (King, 18 March 1966). Dr. King had recently moved his family to one such environment, and had been working to fight segregation in education, housing, and employment. In the aftermath of the violent Watts riots just the year before, Dr. King and the SCLC were on a mission to demonstrate how nonviolent action could address the complex economic segregation of northern US cities.¹

While nearly fifty years have passed since that moment in history, we are faced with many of the same dynamics of segregation that Dr. King fought against during his lifetime. Laws that allow prosecutors to protect police and vigilantes who violently target black men, are the extension of policies that date back to the beginning of the United States. They are part of a web of policies that have devalued, excluded, and exploited people of color. Access to wealth in communities of color is limited, and statutory laws have permitted banks and predatory lenders not only to prevent wealth accumulation, but to strip wealth out of these communities. This report, while limited in scope, looks at one very specific part of this financial exclusion: access to quality, affordable, and accessible banking services.

In this report, we will explore how an exclusionary and predatory banking system has been built, who is being affected, and what we can begin to do to address the problem. We are viewing this year’s State of the Dream report as an ongoing project — with continued research, policy recommendations, organizing efforts and innovative ideas for how to rein in predators that are stripping wealth out of the communities that can least afford it.

The researchers and authors of this report acknowledge that financial inclusion will not immediately solve the complex economic barriers to building wealth in communities of color. To wholistically address this problem, we need to look beyond a transitional approach toward a transformational one, as illustrated in our **Principles of Inclusionary Banking** (page 20). This report simply illustrates a platform of conditions for which progress is both needed and achievable in the short term, and highlights several possible solutions.

A Note on Definitions

The unbanked are people that do not have any type of consumer checking account, and are outside the entire banking system. The underbanked are people that have a checking account, but also rely on Alternate Financial Service Providers. We will call both groups “underserved” throughout this report. (More in Section 2 about these terms).

The discussion of race is central to this report. Much of the data used in this report is released by various government agencies, which impose labels that are vague, imprecise and self-identified. While we recognize the cultural and political differences between many of these terms, we will follow suit for the sake of properly reflecting the data that has been gathered.

We will use the term Black when referring to Black people generally and African Americans. Some of the quoted text has been revised to be consistent. We will use the term White for the datasets corresponding to White, non-Hispanic people. Asian will be used broadly as self-identified Asian people. We present data on Asian-Americans with the huge caveat that

it is often misleading. Many data sets clump together Asian immigrant populations that have widely varying economic, civic and cultural characteristics.

For data labeled as White Hispanic or simply as Hispanic, we will refer to these people and communities as Latino, a term that places emphasis on location, not language, with an understanding that the term includes both men and women. This includes both native and foreign-born people with cultural roots from Mexico, Central American, Caribbean or South American nations, except for those identifying as Afro-Caribbean, who have likely self-identified as Black; or Native Americans, who are grouped with Inuit, Polynesian, and Alaskan Natives. For the purposes of this report, Native American either refers to those who self-identified when responding to the US Census, or those living on, or with cultural roots based in, a sovereign nation.

We will also describe communities using the aforementioned terms, and will call any community that is mostly non-white (a minority majority) a ‘community of color.’

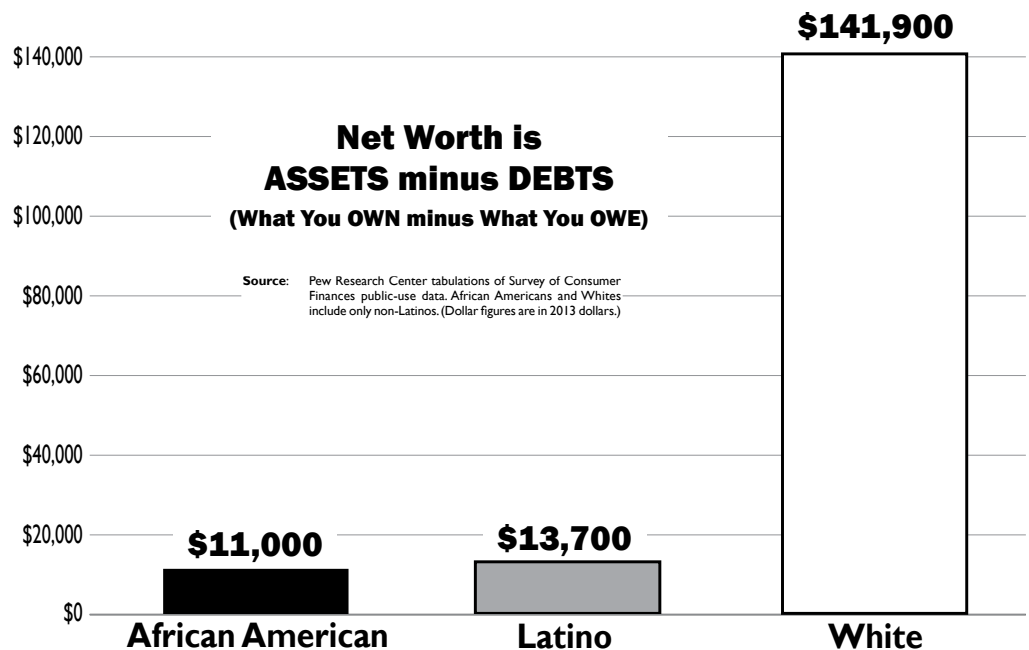
The Roots of Wealth

Based on UFE’s text, *The Color of Wealth*, by Meizhu Lui, et al.

For every dollar owned by the average White family in the US, the average family of color has less than a dime. Why do people of color have so little wealth? Because for centuries they were barred by law, by discrimination, and by violence from participating in government wealth-building programs that benefited White Americans.

Most private wealth in the United States was inherited. And even for people who do not inherit money after their parents’ deaths, their family’s education and social contacts and financial help from living relatives make a big difference.

Household Median Net Worth by Race, 2013



A family's net worth is their assets minus their debts, or what they own minus what they owe. Assets include houses and other real estate, cash, stocks and bonds, pension funds, businesses, and anything else that can be converted to cash, such as cars and works of art. Our net worth is influenced by the net worth of our parents, grandparents, and earlier generations.

Not only do well-off people, primarily Whites, have significant head starts, but even many working-class Whites have had modest advantages when compared with working-class people of color, most of whom begin far behind Whites' starting line.

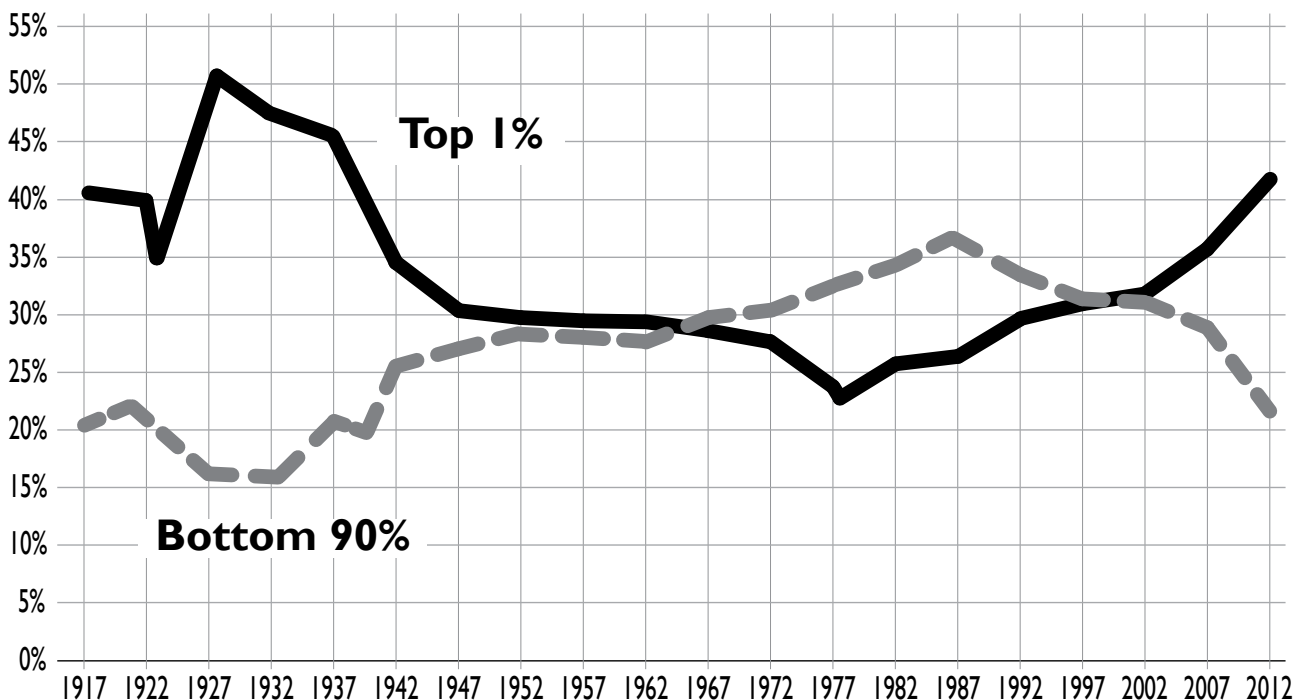
The wealth gap in the US has widened significantly in the past 30 years, to levels unseen since the Great Depression. While the richest 1% owns 41.8% of the wealth, the poorest 90% hold only 22.8% (see chart below).

Income is a short-term measure that shows the effects of education, effort and talent, as well as the impacts of opportunity and discrimination, on the current generation.

"Income feeds your stomach, but assets change your head. That is, you really do act differently when you have a cushion of assets so that you can strategize around important opportunities in life. When you are living from paycheck to paycheck you just think about how you're making the next day or the next week or the next month happen. But when you have a set of resources that allow you to think about your future in a positive way, you can strategize about the future, create and take advantage of opportunity. Otherwise you stay in the present."

**-Melvin Oliver, Co-Author of
Black Wealth, White Wealth**

Share of Wealth of Top 1% & Bottom 90%, 1917-2012



Source: Emmanuel Saez and Gabriel Zucman, "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data," Working Paper 20625, NBER <www.nber.org/papers/w20625>.

As an estimated 80 percent of assets come from transfers from prior generations, the history of the financial situations of prior generations is a primary cause of the racial wealth gap.

Think back just a few generations to the 1850s. In that decade, the US government treated people dramatically differently based on their race, and the differences present then still affect us today. For Whites during that decade:

- Only Whites were eligible for California land claims during the gold rush; many who didn't find gold became farmers.
- Slave owners were getting rich off slave labor; for example, the average slave owner's income in South Carolina in 1850 was more than ten times the average income of all White residents.
- White women were gaining the right to own property.
- Congress was preparing to distribute millions of acres of Western lands to White people through the 1862 Homestead Act.

Meanwhile, for non-whites in that decade:

- The US Army waged battle over land against Indian tribes; in 1851, the Sioux tribe yielded all of Iowa to the US.
- The US government appropriated \$1 million for Indian scalps and made all Indian lands in California available for White homesteaders.
- The Fugitive Slave Law made it a criminal offense to hide or assist runaway slaves, and slave catchers could search even in free states.
- Free blacks were losing their jobs to immigrants.
- One-third of Mexican-American landowners lost their land, despite being ostensibly protected after Mexico lost half of its land in the Treaty of Guadalupe-Hidalgo.
- A "foreign miners tax" was passed to stop Mexicans and later Chinese workers from participating in the Gold Rush; special taxes, fees and regulations were placed on Chinese men to keep them from competing with White miners and business owners.
- A court ruled that Chinese people weren't White, denying them many advantages of citizenship.

Fast forward 100 years to the 1950s, and Whites still held many official and unofficial advantages over people of color, and the racial wealth gap continued to widen:

- The GI Bill helped primarily White male veterans to enter college and move into professional careers.
- More than a quarter of all White families shifted from renting to owning in the twenty years following WWII.
- Suburbs grew with the help of federal subsidies for roads, infrastructure and mortgages, and they were almost entirely limited to White homebuyers.
- For Blacks, discrimination in hiring continued, and returning veterans found that the GI Bill's educational benefits only worked at historically Black colleges, which were unable to meet the demand.
- Rule by terror continued in the South.
- Less than 1% of all mortgages from 1930 to 1960 were issued to Black people.
- Despite laws to the contrary, Black people were excluded from buying homes in White neighborhoods and were forced instead to live in urban ghettos.
- Japanese-Americans who lost property while in internment camps were awarded about 10 cents per dollar lost in reparations.
- Puerto Ricans flocked to New York for factory jobs that soon evaporated, while Operation Bootstrap allowed US companies to set up shop in Puerto Rico, displacing local businesses.
- Mexican Americans found themselves working as laborers on land their grandparents had owned, and hundreds of thousands of Mexicans who were brought to the US to work during the war were deported.
- In 1953, Congress passed a tribal termination law that ended federal recognition and services for over a hundred tribes.

The overt discrimination in 1850 flowed down to 1950, and continued discrimination has flowed down to present day, affecting the income, wealth, and asset-building opportunities for people of color in the US.

Credit Builds Wealth

Credit has been a part of mainstream American finances since at least the turn of the 20th century. Many retailers offered credit to local residents or businesses to boost sales, or even in a goodwill effort to provide for the community, but it wasn't until American Express created the first plastic card in 1958 that consumers had instant access to a line of credit. As popularity in credit cards boomed, retailers began closing their internally managed credit departments.

Today, credit scores are managed by three companies, and financiers use this data to offer lines of credit to individuals. Access to lines of credit offer an ability to pay for an unexpected expense. (For more, see "Intentional Exclusion", p. 15)

Other sources of bank credit are auto loans, home loans, and educational loans. These are standard bank products, with each applicant needing to meet certain criteria, namely a favorable credit score with documentable assets and/or income. A good credit score is becoming more and more critical, as many employers check a potential employee's history.

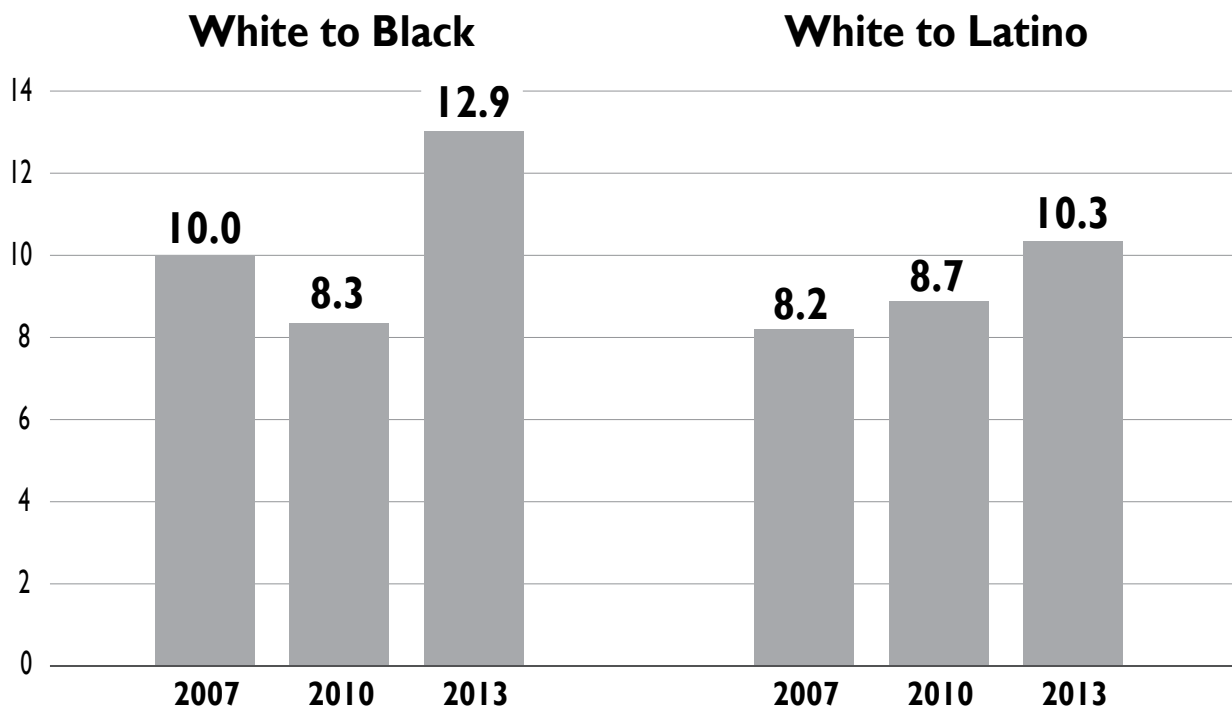
Making Ends Meet

Even as productivity has increased over the last 40 years, wages have not kept up. In 2014, the median wage in America was \$53,891. Even though the Federal minimum wage has been increased several times, its adjusted purchasing power is the same now as it was in the early 1980s, and is down from its peak in the late 1960s.²

Since the mid 1970s, all major sectors of the economy have sought to boost profits by trimming expenses, particularly workers' wages and benefits. From outsourcing and off-shoring to layoffs and wage cuts, the majority of the workforce has become increasingly vulnerable. Wages have stagnated and benefits have shrunk. While good union jobs have declined, low-wage, contingent work has expanded. Since the Great Recession of 2008, growth in wages and wealth has been concentrated at the top, while a disproportionate number of workers and families of color become increasingly marginalized.

Household Median Net Worth Ratios by Race, 2007- 2013

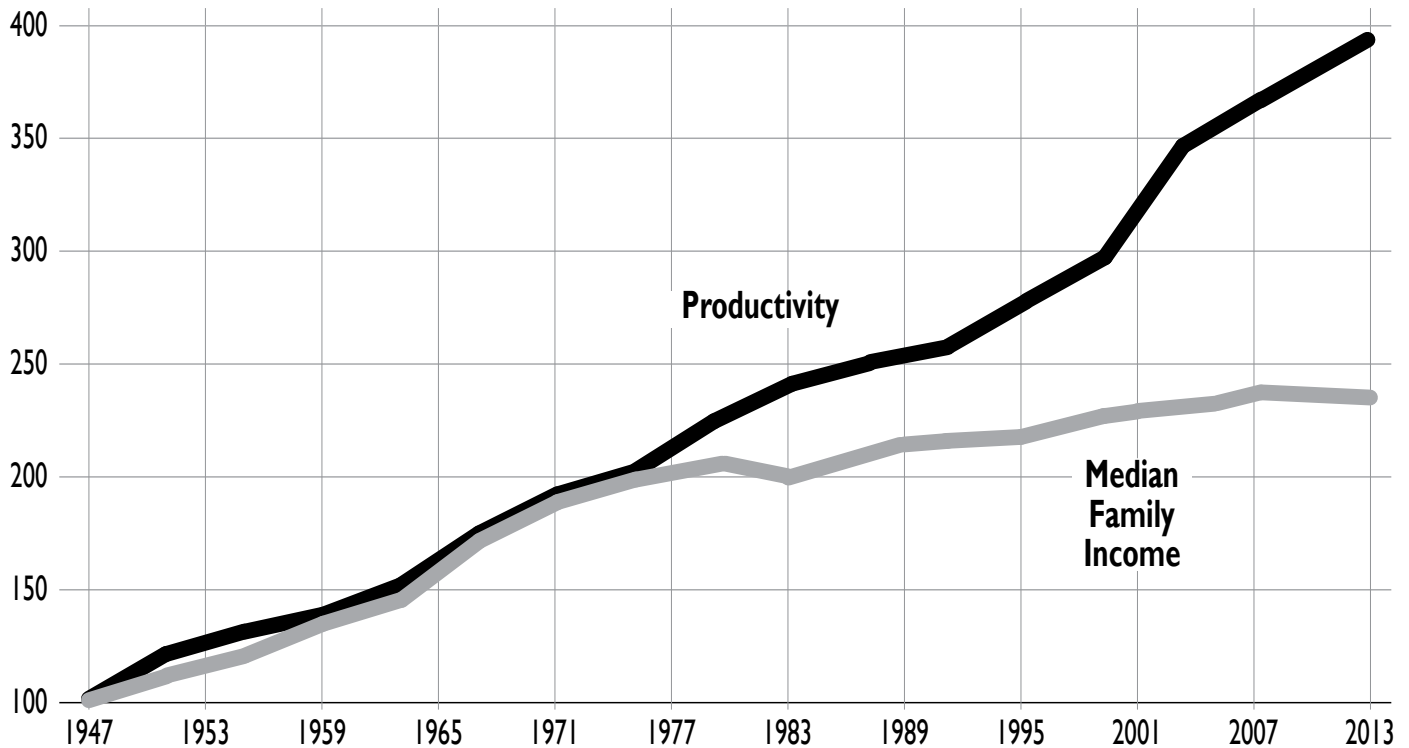
The racial wealth divide has widened dramatically since 2007!



Source: Pew Research Center tabulations of Survey of Consumer Finances public-use data. Blacks and Whites include only non-Latinos. Latinos are of any race.

Productivity and Median Family Income, 1947-2013

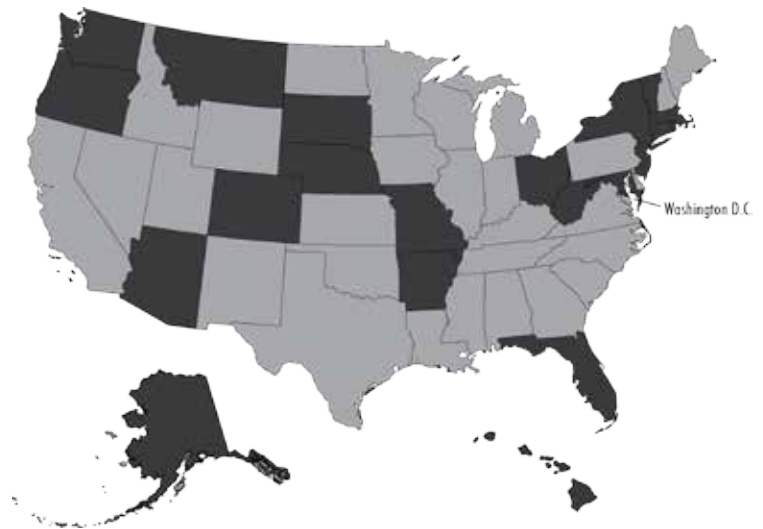
Since the mid-1970s, income for most families hardly grew while productivity soared!



Source: For 1947-2007: analysis of US Census Bureau and US Bureau of Labor Statistics (BLS) in *The State of Working America 2008/2009*, Figure 1G, by Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, Economic Policy Institute (EPI). For 2007-2011: UFE extrapolation of EPI's analysis of data from Bureau of Labor Statistics & Bureau of Economic Analysis <www.epi.org/publication/the-top-10-charts-of-2014/?utm_source=Economic+Policy+Institute&utm_campaign=49769a8560-Top_Charts_201412_18_2014&utm_medium=email&utm_term=0_e7c5826c50-49769a8560-55878457>.

Low Wage Workers Stand Up

It should come as no surprise that resistance to low wages and declining quality of life has been building. In the last few years, fast food, retail, car wash, personal care, janitorial, day labor, and many other low-wage workers are saying “enough is enough” and leading struggles for dignity and a fair wage on the job. Supported by traditional labor unions, community-based workers centers, faith-based networks, and others, low-wage workers have put pressure on McDonalds, Walmart, and other mega-corporations to boost wages in the “Fight for \$15.” At the same time, broad coalitions in cities (Seattle, San Francisco, Oakland, etc.) and states (Massachusetts, Nebraska, Illinois, Alaska, Arkansas, etc.) around the country are winning campaigns to raise the minimum wage.



In 2015, due in large part to the efforts of grassroots organizers, 20 states will see hikes in the minimum wage.

Noguchi, Yuki. “More States Raise Minimum Wage, But Debate Continues.” NPR. January 1, 2015. Accessed January 16, 2015.

SECTION 2: THE UNBANKED AND UNDERBANKED

Editors note: The vast majority of data on unbanked and underbanked people comes from a series of FDIC reports, dated 2009, 2011, and 2013. Most facts and and figures in this section can be found in these reports.

Underbanked and Overcharged

For approximately 16.7 million adult Americans, the simple ability to write a check or have direct deposit is a dream. They make up the nation's unbanked population; that is, those without a checking account holder within the household. An additional 50.9 million adults have a checking account, but do not have full banking access (underbanked).

Unbanked: the 16.7 million adults in the US that do not have access to banking services through a checking account.

Underbanked: the 50.9 million adults in the US that have a checking account but rely on financial services from predatory fringe lenders.

The unbanked and underbanked (grouped together, referred to as “the underserved”) rely on **Alternative Financial Service Providers (AFSPs)** to provide some of their banking services via a variety of exploitive financial products which include check cashers, payday lenders, auto title lenders, buy-here-pay-here auto loans, subprime and secure credit cards, pawn shops, rent-to-own stores, etc. (A full Glossary of Financial Exclusion can be found in Appendix 1.)

Each year, over \$103 billion is being stripped from these 67.5 million unbanked and underbanked individuals and their communities and placed into the hands of Wall Street. For the financially underserved, there is little opportunity to create a credit history, have access to affordable, safe and sustainable financial services and ultimately build assets; for all of us, this is a serious problem and a public issue.

Blacks and Latinos are the most likely to be financially excluded, with 53.6% and 46.8% of households underserved respectively. A variety of factors drive people to become unbanked (see page 12), but the 2008 recession and housing bubble burst has changed the economic reality of communities of color. Many communities have abandoned storefronts, closing businesses, and foreclosed homes.

Banks have also closed in these same communities, further curtailing convenience and accessibility. There are fewer full-service bank branches in neighborhoods of color than in White ones. But physical proximity is not the only barrier to greater bank usage cited by lower-income consumers.

In 2013, the number of federally insured financial institutions fell to 6,891 – the lowest number of retail banks in the US since 1934.

Rural areas are especially affected. Eighty-five percent of the poorest counties in the US are rural—they are also notorious for being ‘bank deserts’. “Rural America is facing increasing challenges in light of the accelerating banking exodus,” says Dominik Mjartan, Senior Vice President at Southern Bancorp, based in Arkadelphia, Arkansas.³ One part of the banking sector has profited off of this economic reality, the Alternate Financial Services Industry (more in Section 3).

<i>Areas with Majority of Households within income level</i>	<i>Net Gain/Loss of Bank Branches</i>
<24,999	(199)
25,000-49,999	(257)
50,000-74,999	900
75,000-99,999	39
100,000-149,999	1,844
150,000-199,999	3
200,000 or more	643

Source: LitiNomics/UFE Research

What Drives People to Become Unbanked?

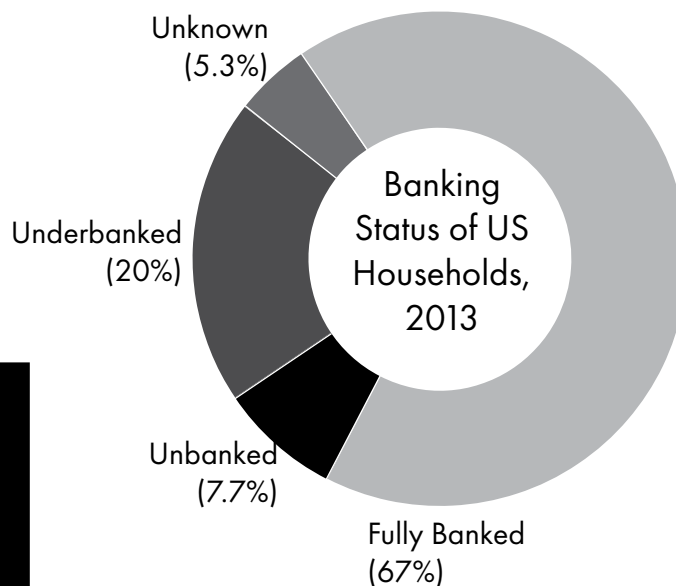
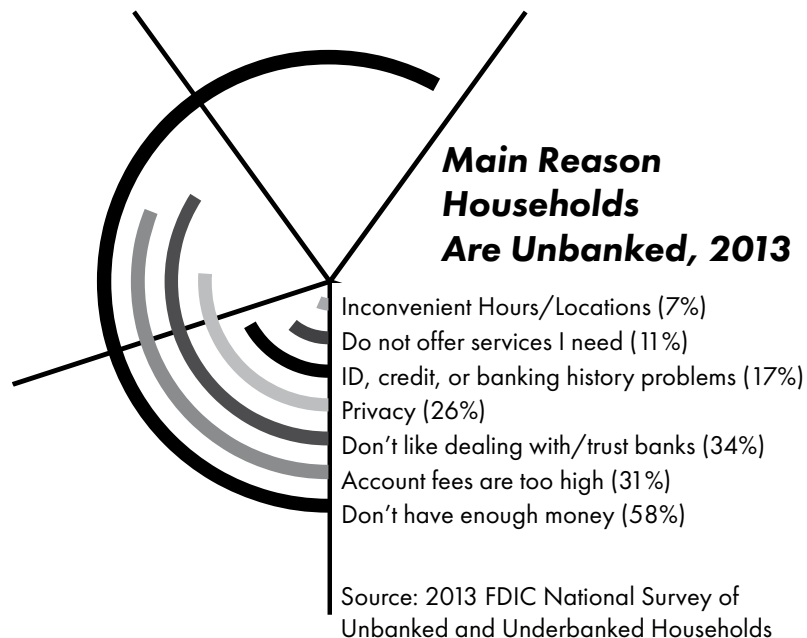
There are many reasons why people opt out of the banking system. Many customers do not trust banks (34%). Some do not have enough money to meet minimum balance requirements, or to not overdraft (58%). Some think the account fees are too high (31%). Others think the bank does not offer financial services they need (11%), some cannot open an account due to history or credit problems (17%). Finally, 7% feel that hours and locations of bank branches are too inconvenient. This may be the result of increased access to mobile banking and check deposit through commercial banks.

The Scale of the Problem

In the United States, 7.7% of households are unbanked, the equivalent of 9.6 million households, composed of approximately 16.7 million adults and 8.7 million children. Approximately 20.0% of US households are underbanked, representing 24.8 million households, or 50.9 million adults and 16.6 million children. One in thirteen households are unbanked; one in five are underbanked.

Two-thirds of households (67%) are fully banked. The remainder (5.3%) are banked, but whether they are considered underbanked is unknown.

One in four households in the United States are not fully included in the financial system. One in thirteen households are unbanked, and one in five households are underbanked.



Source: 2013 FDIC National Survey of Unbanked and Underbanked Households

Latino, and Native American households are the most likely to be unbanked or underbanked.

20.5% of Black households are unbanked, and 33.1% are underbanked, with 6.3% banking status unknown. This means that only 40% of Black families are fully taking advantage of the banking system.

17.9% of Latino households are unbanked, and 28.5% of Latino families are underbanked. About 5% have an unknown banking status, and just under half (48.4) are fully banked.

For Native American households, 16.9% are unbanked and 25.5% are underbanked, with the banking status of 4.6% of households unknown. Just over half (53%) are fully banked.

For Hawaiian/Pacific Islander households, 6.1% are unbanked and 25.1% underbanked, with 4.2% unknown.

By contrast, nearly 75.4% of White households are fully banked, with only 3.6% unbanked and 15.9% underbanked. Similarly, 73.4% of Asian households are fully banked, with 2.2% unbanked and 17.9% underbanked.

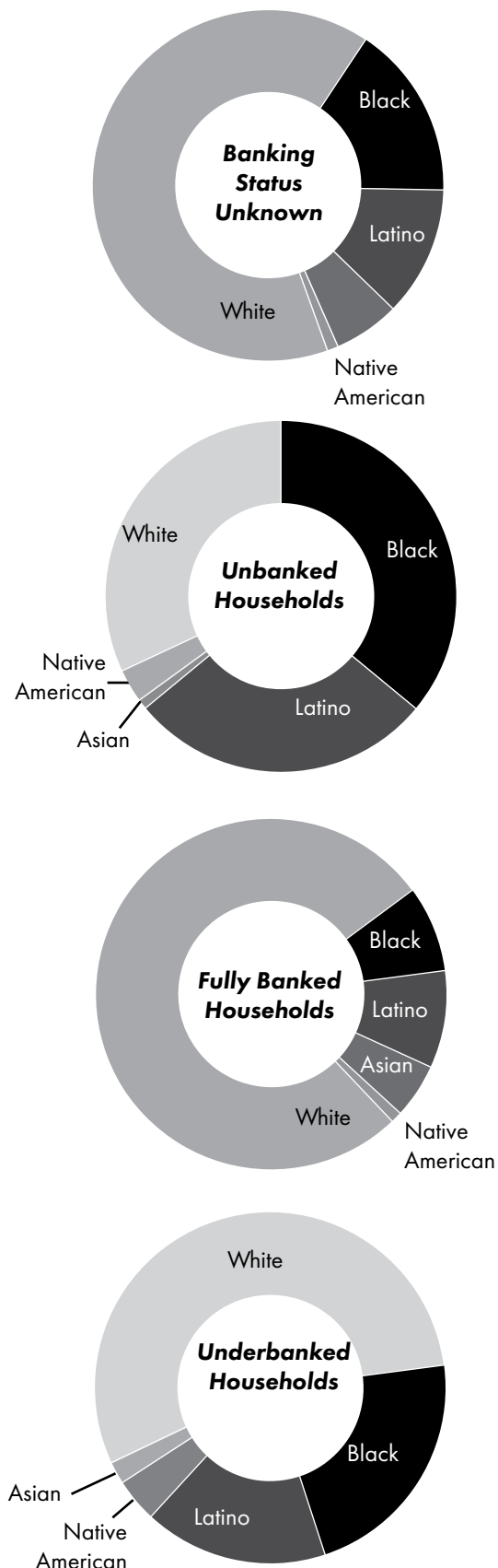
Language

While data on language is limited to Spanish-speaking households, there is significant correlation between language access and banking status. For households where Spanish is the only language spoken, 34.9% of households are unbanked and 23.7% underbanked. Only 38.1% of Spanish-speaking households are able to take full advantage of banking services.

Legal Status

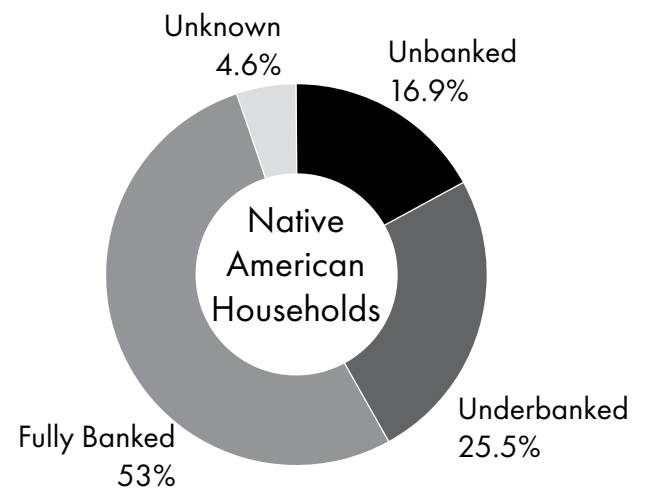
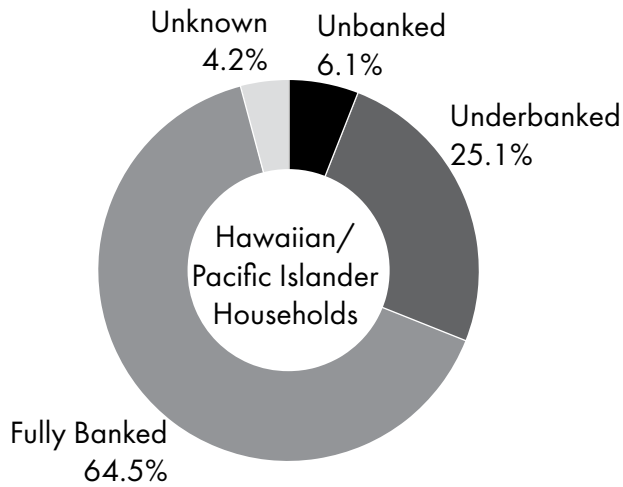
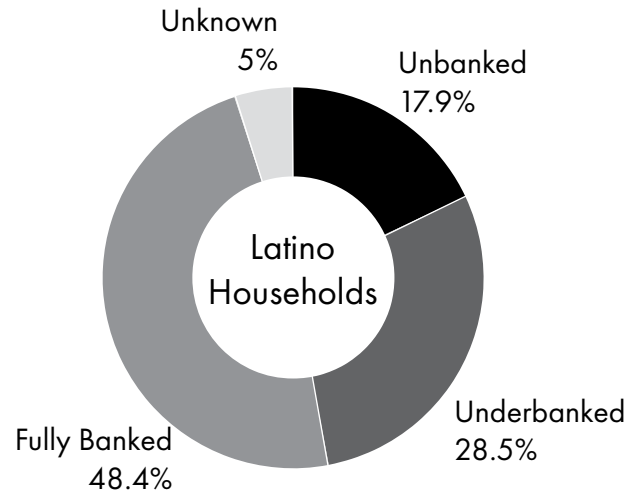
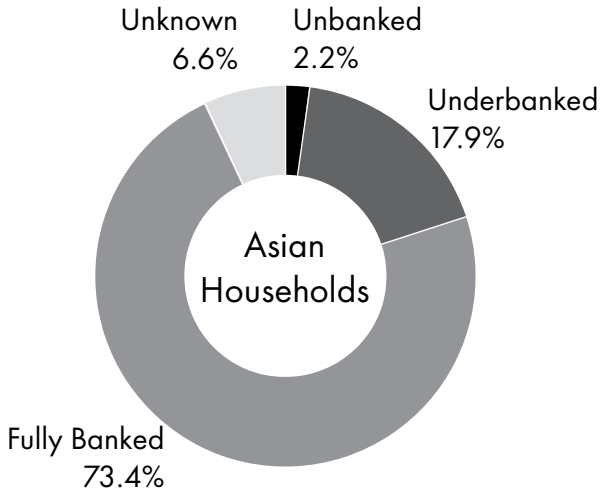
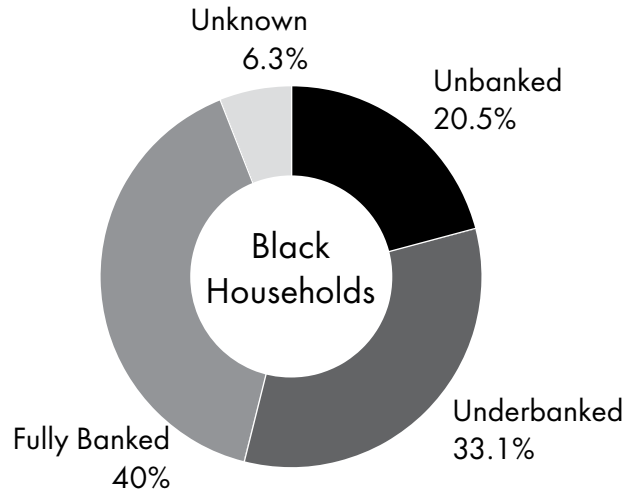
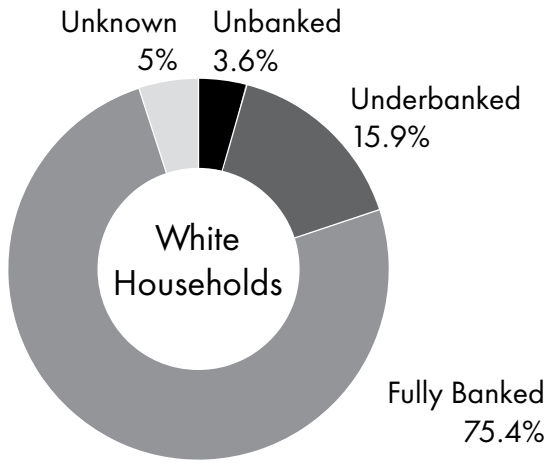
Foreign born non-citizens are also more likely to be unbanked than most. 22.7% of foreign born non-citizen households are unbanked, compared to only 4.7% of their foreign-born citizen counterparts.

Households by Type and Race, 2013 (%)



Source: 2013 FDIC National Survey of Unbanked and Underbanked Households

Banking Status By Race, 2013



Source: 2013 FDIC National Survey of Unbanked and Underbanked Households

Paychecks via Debit Card

Nearly 4.1 million US workers get paid via debit card, totaling \$34 billion per year.⁴ At the same time, out-of-network ATM fees are at their highest levels ever, up to \$4.35 per transaction.⁵ Even at a modest cost of \$1.75 per transaction, the monthly costs of fees associated with a payroll debit card can be \$40-\$50, not including fees assessed in the case of overdraft.⁶

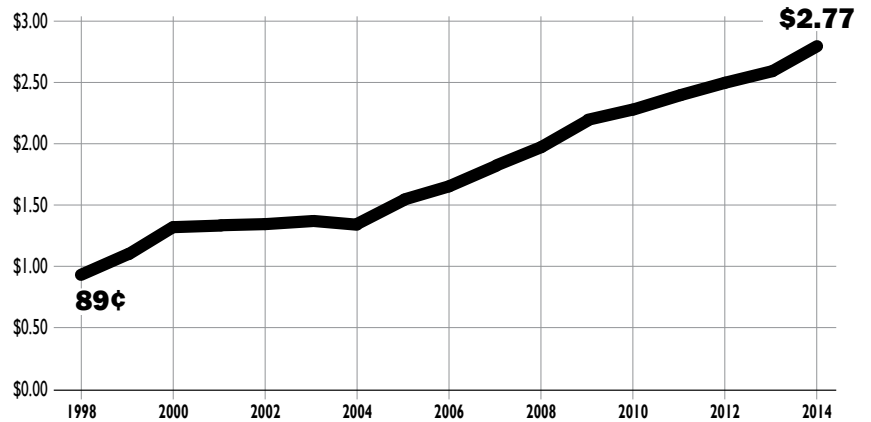
Non-Sufficient funds (overdraft) fees have been rising since the onset of the current economic crisis. According to a report by the Pew Charitable Trust, the median extended overdraft penalty fee at the nation's 12 largest banks has increased 32 percent since 2010. For debit cards, the typical overdraft fee of \$34 is triggered by transactions that average just \$17.⁷

Intentional Exclusion: Data Mining and ChexSystems

In addition to the three credit agencies that track credit history, on-time payments and delinquent accounts, there is a fourth company whose business model is predicated on excluding people from the banking sector. This company, ChexSystems, includes any history of a person's bounced checks, payday loans, the number of accounts closed due to abuse or fraud, and whether they still owe money to any banks. "Having a low score doesn't necessarily mean you won't get a bank account, but it can mean more fees or restrictions. Some banks will offer low-score applicants prepaid cards or special accounts that are carefully monitored and lack typical checking account features, like debit cards or e-banking," said Martin Romain, a senior vice president at Fidelity National Information Services. "Applicants with 'near low' scores are sometimes offered "no frills" accounts that may not have the same level of surveillance, but still don't come with features like e-banking and bill pay."⁸

Average ATM Fees, 1998-2014

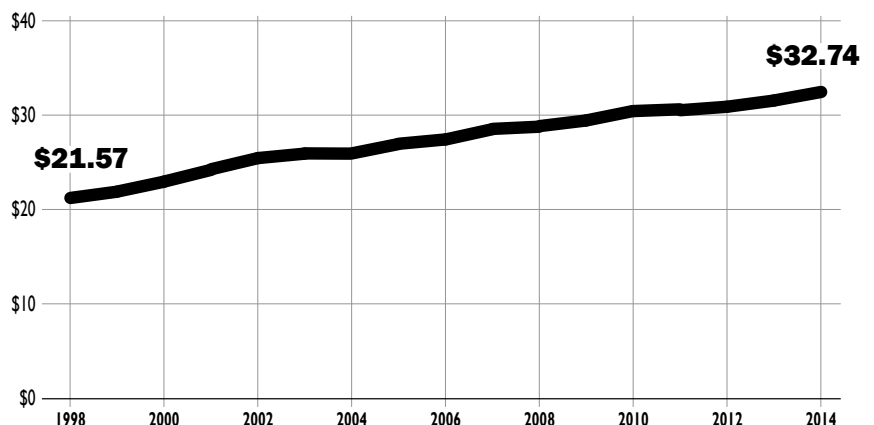
ATM fees have climbed for the last 10 years in a row.



Source: Bankrate.com, Fall 2014 Checking Survey <www.bankrate.com/finance/checking/checking-account-fees-surge-to-new-highs-2.aspx>.

Average Non-Sufficient Funds Fees, 1998-2014

Fees for checking account overdrafts are climbing steadily.



Source: Bankrate.com, Fall 2014 Checking Survey <www.bankrate.com/finance/checking/checking-account-fees-surge-to-new-highs-4.aspx>.

SECTION 3: FILLING THE GAP

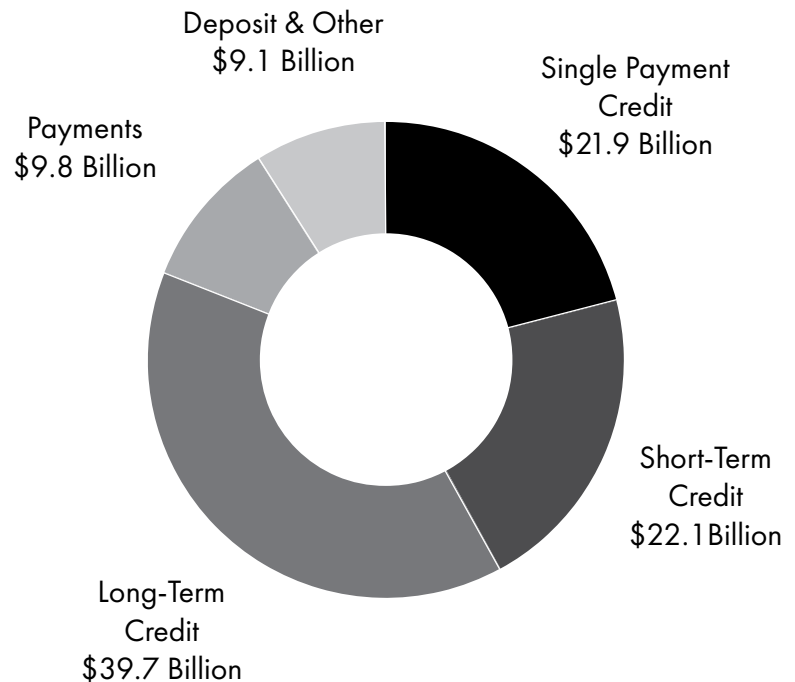
This report has so far illustrated two important pieces of the crisis of the unbanked and underbanked. Firstly, that for hundreds of years, the creation of wealth by people of color has been suppressed by way of social and governmental forces. While this explicit exclusion of people of color from financial stability is unconscionable by today's standards, exclusion itself has become more complex and difficult to pinpoint and address. Secondly, that lack of access to the tools necessary to build credit and wealth over time is an issue that still currently affects one in four American households, disproportionately people of color.

Alternate Financial Services can be broken down into five categories:

1. **Single Payment Credit**, such as payday loans, overdraft fees, or pawn shops;
2. **Short-term credit**, such as auto title loans, rent-to-own shops, subprime credit cards, and high-interest rate installment loans;
3. **Long-term credit**, such as subprime auto loans, Buy-Here-Pay-Here auto loans, and subprime private student loans;
4. **Payment services**, such as check-cashing, remittances, prepaid reloadable debit cards, payroll cards, and money orders; and
5. **Deposit & Other**, which includes checking or savings account fees or "retirement leakage" fees (costs for taking money out of a retirement plan early).

AFSP (n): Acronym for Alternative Financial Services Provider. The slate of fringe and often predatory financial service providers that set up shop mostly in rural areas and/or communities of color to make money from of those excluded from the financial mainstream. Examples include payday lenders, title loan lenders, check cashers, remittance providers, refund anticipation lenders, pawn shops, and rent-to-own shops.

Annual Spending in US on Alternate Financial Services by Category, 2013



Source: Wolkowitz, Eva. "2013 Financially Underserved Market Size." CFSI.

Financed by Wall Street banks, the Alternative Financial Services Provider (AFSP) industry raked in over \$103 billion in gross income in 2013⁹. They are literally taking money from people that can not afford to pay it. That is more money than the US government spends on all food-based assistance programs annually.¹⁰

In this section, we will talk about the industry that was created because of financial exclusion, and take a specific look at the payday lending industry as illustrative of the problem at large.

Payday Lending

Payday lenders are perhaps the most visible and menacing form of alternate financial service. Lenders tend to be largely concentrated within poorer communities of color. “A drive through minority neighborhoods clearly indicates that people of color regardless of income are a target market for legalized extortion. Payday lending is an economic drain that threatens the livelihoods of hardworking families and strips wealth from entire communities.”¹¹

Likely due to the combination of sporadic employment and underemployment caused by the recession, payday lending storefronts have exploded in number. “An industry estimate reports that in 2010 there were approximately 19,700 payday stores nationwide which issued \$29.3 billion in cash advance loans.”¹²

There are more payday lenders than McDonalds or Starbucks locations in the United States.

“The core demand for payday loans originates from households with a poor credit history, but who also have checking accounts, steady employment, and an annual income under \$50,000. For example, Advance America’s average customer is 38 years old with

a median household income of just over \$40,000; in addition, 42 percent are homeowners, and 84 percent are high school graduates (Marketdata Enterprises, Inc., 2005). In Indiana, state regulators report payday loan customers to be in the \$25,000 to \$30,000 income range; in Illinois the average is \$24,000; while borrowers in Wisconsin are even less affluent, with an average income of just \$19,000.”¹³

The AFSP Business Model: Debt Trap

“DBO conducted a survey of payday lender licensees to assess the frequency of repeat lending of payday loans during calendar year 2013. Lenders were asked to report how many of their borrowers received 1, 2, 3 and up to 10 or more loans in each period. An analysis of the findings shows that repeat borrowers are the “bread and butter” of the payday lending business model, contradicting the industry’s marketing claims.”¹⁴

The average unbanked or underbanked household spends \$3,029 per year on alternative financial services fees and interest, which every year is about \$103 billion taken out of the hands of the most financially vulnerable and put in the hands of predatory Wall Street banks.

Findings on Payday Lenders & Race

Primary Source: Center for Responsible Lending

Finding 1: “Payday lenders are nearly eight times as concentrated in neighborhoods with the largest shares of Blacks and Latinos as compared to White neighborhoods, draining nearly \$247 million in fees per year from these communities.”¹⁵

Finding 2: “Even after controlling for income and a variety of other factors, payday lenders are 2.4 times more concentrated in Black and Latino communities. On average, controlling for a variety

of relevant factors, the nearest payday lender is almost twice as close to the center of a Black or Latino neighborhood as a largely White neighborhood.”¹⁶

Finding 3: “Race and ethnicity play a far less prominent role in the location of mainstream financial institutions, such as bank branches. While race and ethnicity account for over half of the variation in payday lender location explained by neighborhood factors, they explain only one percent of the variation in bank branch locations.”¹⁷

Furthermore, race seems to play a role in explaining the demand for payday lending services, as suggested by Stegman and Faris (2003). Their study of the North Carolina market indicates that the likelihood of using a payday lender goes up significantly for Black households. In fact, in their study, this is one of the top three predictors of the probability that a household has

used a payday lending service in the past. They find the odds that an Black household has used a payday lending service are over 2-to-1.¹⁸

Findings on AFSPs and Age

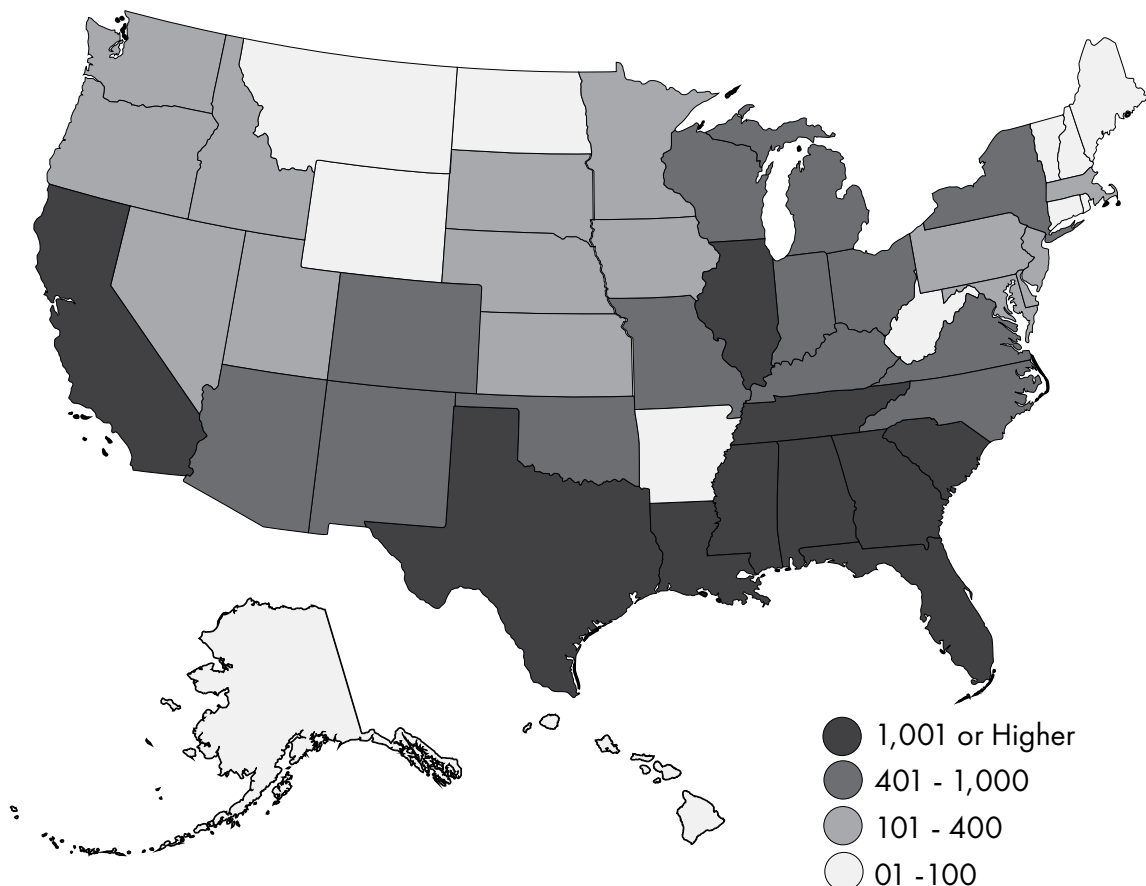
The majority of payday loan consumers are young adults and typically in the early stages of the financial life cycle. This is consistent with the moderate incomes of most payday loan customers indicated above.¹⁹

The elderly may be a new target of AFSPs, however. “In Florida, the proportion of payday borrowers aged 65 and over increased by 73% from 2005 to 2011, while this age group among the general Florida population increased by only 4%.”²⁰

Credit Factors and AFSPs

A large majority of payday loan customers (73%) report having been turned down for credit or not

Number of Payday Lenders by State, 2014



Source: Barth, James, Jitka Hillard, and John Jahera Jr. “Banks and Payday Lenders: Friends or Foes?” 2014.

awarded the amount of credit they applied for within the previous five years. And over 15% of payday loan users have filed for bankruptcy in the previous five years, well above the proportion of all adults who have done so (3.7%).

In the study by Stegman and Faris (2003), the strongest predictors of the likelihood of using a payday lending service were related to indicators of creditworthiness. Survey respondents who had worked with a credit counselor or who had one or more bounced checks (overdrafts) within the previous five years were significantly more likely to use payday lending services than other groups.

Debunking the Urban Myth

“MYTH: Payday lending is an urban phenomenon. FACT: Studies show that rural communities can have a higher per capita amount of payday loan debt than urban areas. In Minnesota, payday lenders are not isolated to urban communities. There were 84 licensed payday loan outlets in 45 Minnesota cities in 2012. Of the loans made since 1999, over 75% of payday loans were made in communities outside of the cities of Minneapolis and St. Paul.”²¹

Communities Targeted

In addition to urban communities of color, payday lenders and AFSPs can be found clustered in rural communities and around concentrations of low-wage workers and military bases.²²

“The states with the greatest concentration of payday lenders per capita (based on adult population) are: Mississippi, Alabama, Louisiana, South Dakota, Tennessee, and Missouri. Not surprisingly, these states have the most lenient regulations limiting payday lending and their residents pay relatively more in payday lending fees compared with other areas of the country.”²³

The Future of Payday Lending

There are currently 12 states which have banned payday lending, but that hasn't stopped the payday loan industry.

“Due to the strict regulations that are hitting the payday loan industry hard, many lenders are now turning to Indian tribes to help them out. The American Indian Tribes throughout the United States have been granted sovereign immunity which means that they are not held subject to the laws that payday loans are going up against... but as long as there is an Indian tribe who runs the operation on this sovereign land, the lenders can continue their business even where payday loans have already been banned.”²⁴

There are currently around 30 tribes across the country that have authorized the operation of online payday loans within their nation. Tribes themselves typically see very few jobs created by this industry as call centers and operations jobs are located elsewhere, and although the business brings in \$4.3 billion in revenue annually, tribes themselves get as little as 1% of that revenue.²⁵

SECTION 4: NOW WHAT?

The problem of exclusionary banking practices will not be solved with any single solution. The predatory nature of many of the Alternative Financial Service Providers that are filling the void in banking deserts will not go away overnight. We have chosen to promote a platform of principles which we feel will holistically address the exclusionary nature of banking. We will then highlight three different programs that are currently working to address pieces of the problem, and finally, we will suggest steps that regulators, legislators, and municipal governments can take to curb the growth of predatory fringe lenders.

The policy recommendations given in this report focus on three areas:

- Principles for Inclusionary Banking,
- Current efforts to expand inclusionary banking in the near term; and
- Legislative and policy options that can address the predatory nature of AFSPs.

Six Principles for Inclusionary Banking

1. **End the predatory nature of lending.** The Office of Inspector General of the FDIC defines predatory lending as “imposing unfair and abusive loan terms on borrowers.” Inclusionary banking would end these practices.
2. **Community reinvestment.** Banks exist under and are protected by a regulatory umbrella that allows them to make profits. Because the regulatory support derives its legitimacy from all levels of society, and banks’ depository capital comes from all levels of society, inclusionary banking would recycle that capital into the communities from which it comes.
3. **Community oversight.** Inclusionary banking establishes mechanisms, such as a strengthened Community Reinvestment Act (CRA), that permit community groups and local officials to have a role in holding financial establishments accountable.
4. **Fair pricing.** Inclusionary banking provides high quality, full-service banking at pricing that is

affordable to all wage earners.

5. **Outreach & education.** Inclusionary banking provides accessible information to community residents about lending practices, costs of services, fees, etc. Inclusionary banks should also provide basic financial literacy and credit counseling at no cost.

6. **Welcoming and accessible** to all members of the community, regardless of income level, language, or location.

The Case for Postal Banking

By Mark Dimondstein
President, American Postal Workers Union

Nearly 28% of U.S. households are either unbanked or underbanked. This lack of access to affordable financial services drives the working poor to rely on costly, and often predatory, alternatives. But what if a trusted, accessible, and secure government agency (that receives no tax dollars for operating expenses) with the world’s largest retail network (31,000 branches serving every urban, suburban, and rural community in the country) existed that could help fill this void? It does exist. It’s the U.S. Postal Service.

While the idea of postal banking is not a new one, it got a big boost in 2014 with the publication of a white paper from the USPS Office of Inspector General. Senators Elizabeth Warren and Bernie Sanders have voiced support, as well as the U.S. Conference of Mayors. It’s backed by the four unions representing postal workers and a growing list of financial reform, civil rights, and consumer/citizen groups. According to Warren, “If the Postal Service offered basic banking services – nothing fancy, just basic bill paying, check cashing and small dollar loans – then it could provide affordable financial services for underserved families, and, at the same time, shore up its own financial footing.”¹

1 Warren, Elizabeth. “Coming to a Post Office Near You: Loans You Can Trust?” Huffington Post, 2/1/14.

What makes the Postal Service well situated to fill the void?

Post offices are located in bank deserts. Banks closed 2,300 branches in 2012 alone. Of the bank branch closings between late 2008 and 2012, 93 percent have been in zip codes with below-national median household levels. While banks may be abandoning locations where the underserved live, post offices are not. More than a third (38%) of post offices in the United States are in zip codes without a single bank. Almost a quarter more (21%) are in zip codes with only one bank.²

Post offices have an established relationship with the unbanked. Whereas many unbanked individuals have never stepped foot in a bank, post offices are familiar to many without a bank account. In unbanked neighborhoods, the most common transaction in post offices is money orders, which are especially beneficial to those without bank accounts. The Postal Service sold 109 million money orders in 2012,³ and is the leader in the U.S. domestic paper money order market. This product flourishes without any marketing strategy by the Post Service, simply because it fills a need.

Post offices are trusted. A 2013 survey found that only 26 percent of the American public has “much confidence” in U.S. banks, contrasted with 68 percent agreeing that the postal service is reliable and trustworthy.⁴ The U.S. Postal Service was identified as the fourth most trusted company in the United States and the most trusted federal entity when it comes to privacy.⁵ And, in a November 2014 Gallup survey, 72 percent of Americans – and 81 percent of those 18 to 29 – say the U.S. Postal Service is doing an excellent or good job.⁶

Post offices have experience with financial services. Along with domestic and international money orders, the Postal Service offers electronic money transfers, and prepaid gift cards. Postal retail clerks receive significant classroom and on-the-job training as well as yearly certification. In addition to handling money orders, transfers, and debit cards, postal window clerks

2 Providing Non-Bank Financial Services for the Underserved. Washington, DC: Office of Inspector General, USPS, Jan. 27, 2014.

3 Postal Facts 2013. Washington, DC: USPS, 2013.

4 Providing Non-Bank Financial Services, p. 7.

5 *ibid.*

6 Ander, Steve and Art Swift. “Americans Rate Postal Service Highest of 13 Major Agencies,” Gallup US Daily, 11/21/14.

have experience cashing checks, processing refunds, renting post office boxes, preparing bank deposits, and maintaining business accounts.

Postal Service employees are unionized. The U.S. Postal Service has long been a source of stable income and good benefits for its employees, which in turn benefits entire communities. In 2013, the median wage for a postal employee was \$25.88 an hour.⁷ In contrast, bank tellers on average earned just \$12.21 an hour.⁸

Post offices have a history of offering a Postal Savings System. From 1911 to 1967, the U.S. Post Office offered savings deposits accounts. Early on, the program was particularly popular with recent immigrants, many of whom came from countries with postal banking. During the Great Depression, the system grew in popularity as it was a safer place to save than unregulated, and failing, banks. At its peak in 1947, more than 4 million customers had accounts with deposits totaling \$3.4 billion. Deposits declined as traditional banks increased interest rates, as a period of tighter regulation was ushered in, and as U.S. savings bonds (also with higher interest rates) grew in popularity.⁹

Post offices in other countries do it. Many postal systems around the world – including France, Germany, Japan, China, Brazil, India, and New Zealand – offer financial services and play important roles in advancing financial inclusion. In addition, financial services accounted for 14.5 percent of revenue for postal organizations in industrialized countries in 2012.¹⁰

Offering financial services via the U.S. Postal System will not single-handedly solve income inequality in the United States. The Postal Service would better serve the needs of potential customers – and the nation – because it won’t victimize customers. Non-profit postal banking could help struggling families – and the USPS – achieve financial stability. It would be a tremendous step forward for the country.

7 “Occupational Employment and Wages: 43-5051 Postal Service Clerks.” Washington, DC: Bureau of Labor Statistics, United States Department of Labor, May 2013.

8 “Occupational Employment and Wages: 43-3071 Tellers.” Washington, DC: Bureau of Labor Statistics, United States Department of Labor, May 2013.

9 Providing Non-Bank Financial Services, p 22-23.

10 Providing Non-Bank Financial Services, p. 9, 25.

The National Bank On 2.0 Initiative at the Cities for Financial Empowerment Fund

by Susan Reisman, *Cities for Financial Empowerment (CFE) Fund*

Over the last nine years, Bank On programs have helped financially underserved households open more than half a million new transactional accounts in 100 cities. With the launch of the National Bank On 2.0 Initiative, the CFE Fund is leading national efforts to build on this success and provide a national platform for supporting even stronger local initiatives.

In the next year, the National Bank On 2.0 Initiative will work with local Bank On programs, financial intuitions, federal regulators, consumer advocates, and other service providers to build a strong national platform to support the ability of Bank On programs to connect underserved communities to safe, affordable financial products and services at larger scale. To do so, Bank On 2.0 will focus on resolving barriers local programs continue to experience in connecting populations that support economic stability:

- Partnering with national financial institutions and ensuring that all communities within these institutions' footprints can easily connect individuals to specific, approved products that are safe and affordable. In establishing national partnerships, local Bank On programs will no longer need to negotiate with national financial institutions in every location and monitor the terms of the products to ensure that they do not change. Consistency across the board will ensure that financial institutions have a reliable product they can connect to customers, and allow for better training of financial institution staff to ensure that people get the products they need. Local financial institution partners can continue to innovate and offer services targeted to their specific community needs.
- Expanding delivery channels to help Bank On programs achieve greater scale. While enrolling individuals into programs such as

workforce development programs, summer youth employment programs, Section 8, food stamps, Medicaid, and other social supports, municipal and state government agencies and nonprofit partners have unique opportunities to also ensure that clients have a safe, affordable account in which to direct deposit their earnings and benefits. Bank On 2.0 is working to pilot and develop new models to ensure smooth connections between these programs and the financial products that can support the individuals participating in them.

By reducing the obstacles to connecting underserved populations to mainstream financial services, Bank On 2.0 is working with partners to ensure that all households in the United States have access to safe, affordable financial services that support financial stability and asset growth.

Lending Circles – Mission Assets Fund

<http://missionassetsfund.org>

Lending Circles provide a zero-interest, zero-fee loan to help participants access an affordable, small dollar loan and build credit. Participants take an online financial training class before joining a Lending Circle. Six to ten people come together for an in-person formation and decide on an amount for their group loan. For example, 12 participants at a rate of \$100 per month for a loan of \$1200 each. Each participant can have their own need or goal for the money they borrow, whether its paying off debt or paying for tuition.

Everyone in the Lending Circle makes the same monthly payment, ranging from \$50 to \$200, which the Mission Asset Fund reports to the credit bureaus. The loan rotates each month to a different participant. In the first month, one participant receives \$1000, and each month after that, a different borrower will receive the loan, until everyone in the Lending Circle has had a chance. After completing the program, many participants establish credit scores for the first time or improve damaged ones.

Opportunities for Collaboration

The three options previously listed—Postal Banking, BankOn 2.0, and Lending Circles—offer ways to address the critical needs of the unbanked and underbanked in our society. Both Bank On 2.0 and Lending Circles are established, viable local options for people in need and underserved. They both are models for how innovative, public-private partnerships and dedication to addressing a public need can work. We are encouraged by their promise, and believe they are remedies for addressing the problem.

The only shortcoming is a problem of scale, which equates to a problem of access for millions of families. In rural areas, there is lack of physical access; in urban areas, there is a lack of services and products that work for people of color. These factors, along with the dedication to provide affordable, customer-centric products and ease of access makes the U.S. Postal Service an ideal vehicle for underserved communities. As a trusted public institution, the Post Office can provide a public solution to a very public problem.

Beginning with our Principles of Banking Inclusion, we are advocating for the Inspector General of the US Postal Service and the four major postal unions to begin piloting ways to bring postal banking to the millions of Americans who are underserved and overcharged. Given the expertise of those implementing BankOn 2.0 and Lending Circles, we hope to assist and expand their models for financial inclusion to a wider group of underserved people. We also think there is a unique opportunity to bring expertise and access to mainstream financial services together by brainstorming ways in which all of the aforementioned agencies can begin to work together.

Legislative and Policy Solutions

When States enact strong legislation on the payday lending industry, specifically in terms of storefront borrowing, borrowers do not turn to other forms of payday lending, such as online options. Over 90% of prospective borrowers say they will find other ways to bridge the shortfall in cash to pay for recurring bills.

Cap Interest Rates on Payday Loans

An interest rate cap on payday loans effectively stops the cycle of debt. Currently 17 states and the District of Columbia have enacted double-digit rate caps. In these states, there has been a significant reduction in the cycle of debt, putting more money back in the pockets of people and their communities.

Federal laws enacted with bipartisan support make it illegal to charge military service members more than 36 percent interest on a loan. One of the key enforcement roles of the Consumer Financial Protection Bureau is to closely monitor lenders who continue to prey on military personnel. The CFPB is pushing to curb the exploitive nature of the AFSP industry on our service men and women.

Limiting the loan amount as well as the length of the loan is extremely important step in reining in predatory practices and their effects on borrowers. In less than a year's time after Washington State enacted payday loan limits, consumers saved more than \$122 million in fees.

Policy makers and advocates also need to identify lower cost, small dollar loans that could be available through credit unions and community-based organizations to address the needs of the underserved. Many non-profit and asset building organizations are now offering programs that provide loans while teaching borrowers how they can begin regularly saving.²⁶

The Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau (CFPB) has the ability to issue strong rules and regulations that can begin to rein in the unscrupulous practices of the payday lending industry and close off any of the loopholes that these companies exploit. By limiting the number of times a loan can be rolled over, the CFPB can end the cycle of debt that these loans trap people in. The CFPB could also require the underwriting of these loans based on the ability of the applicants to repay the principal and interest, which would ensure that far fewer borrowers enter into loans they cannot afford.

To find out more, and to take action to end these abusive predatory practices, visit National Peoples Action at www.PreyDayLenders.org.

Modernize the Community Reinvestment Act

The Community Reinvestment Act (CRA) needs to be modernized. With the changing nature of the banking industry, and shifting consumer needs, it is time for the CRA to reflect the new nature of the banking industry. We advocate that the agencies that oversee the CRA and the banking industry take the following steps to improve the way covered institutions serve low- and moderate-income communities and communities of color wherever they transact business:

- Reevaluate assessment areas to reflect current demographics and the customers in those areas;
- Make sure that banks and financial institutions are providing low-cost accounts to meet the needs of unbanked and underbanked communities;
- Strengthen access to affordable small-dollar consumer loans for banks of all sizes. As well, encourage more small business lending to communities of color, and have metrics for how outreach and availability are accomplished;
- Better weigh all aspects of CRA evaluation, including homeownership lending, affordable saving and checking options and small business lending.

- Weaken the predatory practices of non-regulated agencies who prey on the vulnerable in our society, and hold financial institutions responsible for funding and securitizing such practices; and
- Enforce these newly updated standards consistently and to the furthest extent of the law.

To find out more on the CRA modernization, visit the Community Reinvestment Act Coalition at www.ncrc.org

Bring Back Baby Bonds

Backed by the full faith and credit of the US government, savings bonds have long been regarded as one of the safest types of investments. The history of using the US saving bond system to save for college and retirement is long and rich. We advocate for a return to the concept of “Baby Bonds”, which could be processed through the USPS and could directly link to simple childhood saving accounts. The safety and ease of the bond system today, with the ability for electronic purchases and transfers directly from the Treasury make this concept an ideal wealth-building mechanism for low-moderate income children.

Technology and Innovation in the Banking Sector

by Mark Armstrong, President of Commonomics USA

Modernizing payments technology in the USA holds the promise of reducing the need for short-term credit. After all, payday lending is partially the result of delays of payments which create the need for short-term credit. The Federal Reserve states in the “Payment System Improvement” white paper (dated September, 2013)²⁷ that “The U.S. payment system is undergoing a remarkable period of change, driven by rapid adoption of technology and evolving end user expectations.” It makes this additional observation: “In a world where several other countries are moving to ubiquitous near real time retail payment systems, the U.S. payment system does not have this capability.”

The American Banker states that “In the United Kingdom, you can send money to someone else’s

bank account within a couple of hours. In Mexico, the process takes no more than a minute or two. In Sweden, it happens even faster, via mobile phones. Here in the United States, electronic payments move at a snail's pace by comparison. Times vary by bank, but it's common for three, four or five days to elapse before the cash arrives in the recipient's account."²⁸

Mobile-based technology developments, like Kenya's M-Pesa system which allows for immediate transfers of funds by mobile phone, may provide a way for money to be transferred quickly and securely and at an affordable price, without taking on the risk of incurring overdraft fees at a bank or other kinds of service fees by a payday lender.

Conclusion

We know that not everyone will find their way into the banking system, as there is no way to make that happen either through policy solutions or innovations in products. What policy makers and advocates can do, though, is look for ways to attract, retain and encourage people to begin to build assets, build a favorable credit history and ultimately begin down the path of wealth creation. ■

Notes

1. "Chicago Campaign (1966)." Stanford University, n.d. Web. 23 Dec. 2014.
2. Desilver, Drew. "Who Makes Minimum Wage?" Pew Research Center, 8 Sept. 2014. Web. 21 Nov. 2014. <<http://www.pewresearch.org/fact-tank/2014/09/08/who-makes-minimum-wage/>>.
3. Glinka, Gosia, "Fighting Financial Exclusion: How To Serve 88 Million Americans Who Have No Bank," *Forbes*, 5 June 2014
4. Viega, Alex. "Survey: ATM, Checking Account Overdraft Fees Surge." *DailyFinance.com*. 29 Sept. 2014. Web. 17 Dec. 2014.
5. Silver-greenberg, Jessica, and Stephanie Clifford. "Paid via Card, Workers Feel Sting of Fees." *The New York Times*. *The New York Times*, 30 June 2013. Web. 17 Dec. 2014.
6. Parrish, Leslie. "Consumers Want Informed Choice on Overdraft Fees and Banking Options." Center for Responsible Lending, 16 Apr. 2008. Web. 9 Dec. 2014.
7. Ellis, Blake. "Bank Customers - You're Being Tracked." *CNNMoney*. Cable News Network, 6 Aug. 2012. Web. 17 Dec. 2014.
8. Wolkowitz, Eva. "2013 Financially Underserved Market Size." CFSI. December 1, 2014. Accessed January 13, 2015.
9. "Federal Spending: Where Does the Money Go." National Priorities Project. January 1, 2014. Accessed January 13, 2015.
10. Predatory Payday Lending by Banks on the Rise, Short-term loan carries 365%-plus APR," Center for Responsible Lending, November 2011.
11. "Profiting from Poverty: How Payday Lenders Strip Wealth from the Working-Poor for Record Profits," National People's Action, January 2012, p. 9.
12. Lehman, Tom, "Payday Lending and Public Policy: What Elected Officials Should Know," Indiana Wesleyan University, 2006
13. New State Data Show California Payday Lenders Continue to Rely on Trapping Borrowers in Debt," Center for Responsible Lending, October 9, 2014, p. 2.
14. Li et al., "Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California," Center for Responsible Lending, March 26, 2009, p. 10.
15. *ibid*, p. 14.
16. Li et al., "Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California," Center for Responsible Lending, March 26, 2009, p. 20.
17. Lehman, Tom, "Payday Lending and Public Policy: What Elected Officials Should Know," Indiana Wesleyan University, 2006.
18. Lehman, Tom, "Payday Lending and Public Policy: What Elected Officials Should Know," Indiana Wesleyan University, 2006.
19. Testimony of Rebecca Borné Before the Senate Special Committee on Aging, Hearing: "Payday Loans: Short-term Solution or Long-term Problem?" July 24, 2013.
20. Stop the Payday Loan Debt Trap: Myths and Facts About Payday Lending," fairlendingmn.org.
21. Griffith et al., "Controlling the Growth of Payday Lending Through Local Ordinances and Resolutions, A Guide for Advocacy Groups and Government Officials," November 2007, p. 4.
22. Profiting from Poverty: How Payday Lenders Strip Wealth from the Working-Poor for Record Profits," National People's Action, January 2012, p. 9.
23. "The Alliance Between Payday Lenders and Tribes: Are Both Tribal Sovereignty and Consumer Protection at Risk?" *Washington and Lee Law Review* 69, no. 2 (2012). Accessed January 5, 2015.
24. Harton, Julia, and Joanna Zuckerman Bernstein. "Payday Nation." *Payday Nation*. June 17, 2014. Accessed January 13, 2015.
25. Bourke, Nick, Alex Horowitz, and Tara Roche. "Payday Lending in America: Who Borrows, Where They Borrow, and Why." Pew Charitable Trusts, 1 July 2012. Web. 9 Dec. 2014.
26. *ibid*.
27. https://fedpaymentsimprovement.org/wp-content/uploads/2013/09/Payment_System_Improvement-Public_Consultation_Paper.pdf
28. http://www.americanbanker.com/issues/178_219/how-big-banks-killed-a-plan-to-speed-up-money-transfers-1063631-1.html

Glossary of Financial Exclusion

Buy-Here-Pay-Here Auto Loans - A “Buy Here, Pay Here” dealer is typically a used-car dealer that specializes in the sale and financing of older, high-mileage vehicles for borrowers of low and no credit standing. Unlike traditional car dealers, “Buy Here, Pay Here” dealers directly finance the vehicles they sell, typically at higher interest rates averaging 24%. In addition to the high cost and interest rates associated with “Buy Here, Pay Here” dealers, these type of dealers often rely on the “churning” or repeated re-reselling of their marked-up vehicles to generate much of their revenue. Repossession rates hover in the 30% range, with collections and repossessions being a critical part of their business model.

Source: Center for Responsible Lending

Car title loans - Marketed as quick and easy solutions to a financial emergency, this loan uses a borrower’s personal vehicle as collateral and additionally charges triple-digit interest rates.

Source: <<http://www.responsiblelending.org/other-consumer-loans/car-title-loans/>>

Check Cashing - To deposit a check at a bank or other institution and to receive cash in exchange.

Overdraft Fees - An “overdraft” is a situation in which a bank customer withdraws more from his/her account than he/she had previously deposited. For example, if an account holder has \$1,000 in the account and withdraws \$1,200, this is an overdraft of \$200. The bank may or may not honor the overdraft, depending on its policies and the importance of the customer. Usually, however, an overdraft incurs a relatively steep penalty fee.

Source: Farlex Financial Dictionary.

Pawnshop Loans - These loans use a personal item of value as collateral and interest on these advances run as high as 25 percent per month; plus, the stores can charge customers for storage, lost tickets, and other incidentals. Pawnshops increasingly are offering a wide range of financial services -- from check cashing and bill payment services to money transfers and prepaid cards -- to attract consumers who lack access to traditional banks. However, as Tom Feltner of the Consumer Federation of America warns, “consumers need to be aware that the products don’t always carry the same protections as those you would get from a bank.”

Source: “Platinum Card and Text Alert, via Pawnshop” by Stephanie Clifford and Jessica Silver-Greenberg, NY Times, Aug. 24, 2013.

Payday Lending - Payday loans are small loans marketed as a quick, easy way to tide borrowers over until the next payday. However, the typical payday loan borrower is indebted for more than half of the year with an average of nine payday loan transactions at annual interest rates over 400%.

Source: <www.responsiblelending.org/payday-lending>

Predatory Lending - Predatory loans are characterized by excessively high interest rates or fees, and abusive or unnecessary provisions that do not benefit the borrower, including balloon payments or single-premium credit life insurance, large prepayment penalties, and underwriting that ignores a borrower’s repayment ability. Types of lending sometimes also referred to as predatory include payday loans, certain types of credit cards, subprime or other forms of consumer debt, and overdraft loans, when the interest rates are considered unreasonably high.

Source: “Predatory Lending: An Overview,” Fannie Mae Foundation.

Rent-to-Own - An arrangement between a consumer and a seller that allows the consumer to rent furniture, appliances and other goods for a defined period of time. The consumer is only responsible for paying the periodic rental fee for that defined time, which can be as short as a week or month, but may be continued if the consumer chooses to renew it. However, a condition in the rental agreement provides the consumer with an opportunity to purchase the rented goods by continuing to pay the rental fee for a length of time or by paying a lump sum payment. Consumers are often left paying twice as much, if not more, for owning the rented goods than they would have if they had bought them outright.

Source: <http://www.investopedia.com/terms/r/rent_to_own.asp>

State of the Dream Reports

Since 2004, UFE's annual report on race has tracked our progress on Martin Luther King, Jr.'s elusive dream of racial economic equality.

State of the Dream 2014: Healthcare for Whom? explores the racial economic implications of one of the most important human rights issues and public policy debates of the day: healthcare. The report looks at both disparate health outcomes—driven largely by racial segregation and concentrated poverty—and the current state-by-state fights over implementing the Affordable Care Act.

State of the Dream 2013: A Long Way From Home shows that the racial wealth divide remains and tells the story of how the Great Recession took a greater economic toll on Black and Latino families than on White families. Housing continues to be a driving force in the of wealth in communities of color. This report examines the link between housing and asset-building policies and the impacts of those policies on persistent racial inequities.

State of the Dream 2012: The Emerging Majority measures the impacts of the past thirty years of public policy on the racial divide, examining a host of social and economic indicators, including income, wealth, poverty, health care, homeownership, education and incarceration.

State of the Dream 2011: Austerity for Whom? surveys the impacts of a tax-cutting, government-shrinking economic agenda – as prescribed by Republican leadership with Tea Party allies – on communities of color. We find that if such an agenda advances, Dr. King's dream of racial equality will be pushed even further out of reach.

Drained: Jobless and Foreclosed in Communities of Color explores the current racial economic divide in the U.S. in terms of unemployment, income, poverty, net worth, and rate of foreclosures.

State of the Dream 2009: The Silent Depression found that people of color are experiencing a silent economic depression – one that has gone unacknowledged and unaddressed. While the general population has been in recession for one year, people of color have been in recession for five years. While racial barriers did not prevent an African-American from becoming President, they continue to prevent the average person of color from achieving the same economic success as the average white American.

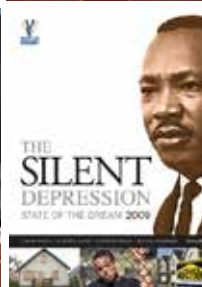
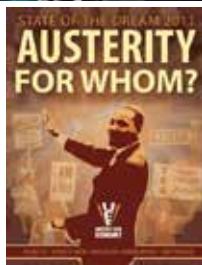
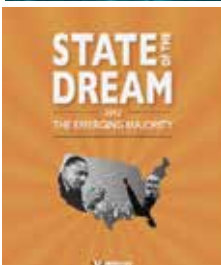
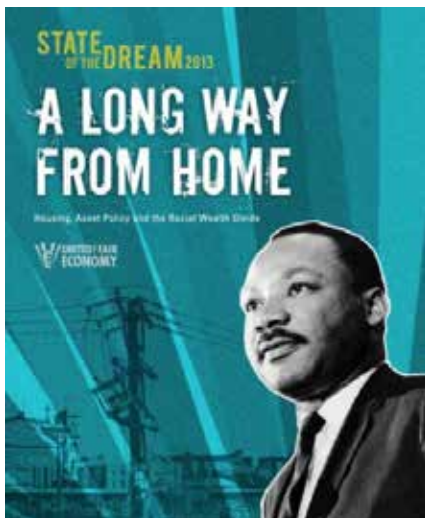
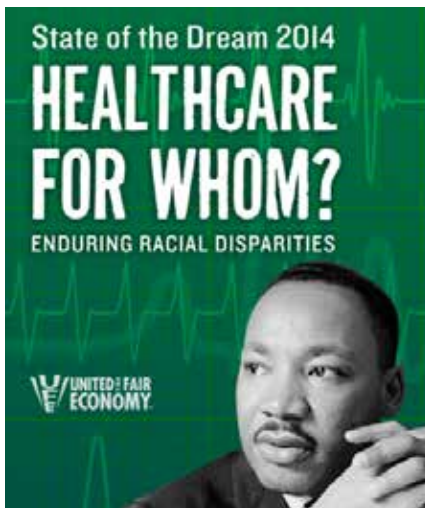
State of the Dream 2008: Foreclosed examines the racial bias of the subprime mortgage lending crisis, and the devastating wealth loss to people of color that has resulted. Just as many policies in the past and today have supported asset development for the wealthy. Today, we need policies to support those injured by the subprime crisis, and must recognize that broad racial and economic inequalities need to be addressed for the success of any policy solutions to the subprime crisis.

State of the Dream 2007: Voting Blue...Staying in the Red

State of the Dream 2006: Stalling the Dream: Cars, Race & Hurricane Evacuation

State of the Dream 2005: Disowned in the Ownership Society

State of the Dream 2004: Enduring Disparities in Black and White



All these reports can be found on United for a Fair Economy's website, www.faireconomy.org