

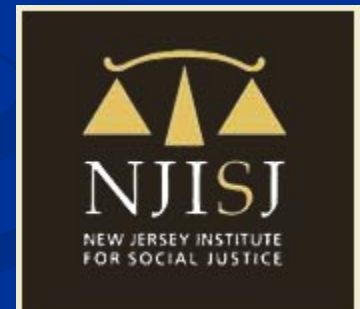
Banking the Unbanked: How Governments Can Incentivize Banks to Service the Poor

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Applied Field Experience: New Jersey Institute for Social Justice

- NJISJ is a Newark-based research and advocacy organization dedicated to the advancement of New Jersey's urban centers and residents.
- NJISJ focuses primarily on expanding economic opportunity, promoting racial equity, and encouraging criminal and juvenile justice reform.
- NJISJ pursues its agenda through policy-related research and analysis, advocacy, and the development and implementation of model programs.

Who Are the Unbanked?

- Nearly 10 million Americans – or about 8.7 percent of all U.S. households – do not have a bank account.
- Unbanked households are younger, less educated, and have a lower annual income than those with bank accounts. They are also far more likely to be African-American or Hispanic.

Why Are They That Way?

- Traditional financial institutions have abandoned low-income neighborhoods.
- In a recently released survey:
 - 27.9 percent of people said they did not have a checking account because they did not write enough checks
 - 14.4 percent of people said they did not have enough money to warrant an account
 - 22.6 percent of people said they did not like dealing with banks
 - 11.6 percent of people cited high service charges
 - 5.6 percent of people said the minimum balances were too high

And Why Does It Matter?

- Fringe banking establishments are expensive.
 - A study by the New York Office of the Public Advocate found that a person earning an annual salary of \$17,000 would pay \$220 a year to cash their check at a check-cashing outlet, as compared to \$30 at a bank.
- Unbanked individuals have a difficult time establishing a credit history and financial cushion for emergencies.
- Being underbanked undermines welfare to work initiatives.

A Missed Opportunity

- Growth of the fringe banking industry
 - Between 1996 and 2001, the number of check-cashing businesses doubled from about 5,500 to 11,000 nationwide.
 - By 2001, the number of pawnshops outnumbered the number of credit unions and banks in the United States.
 - In 1994, there were about 300 payday lenders nationwide; by 2001 that number had increased to 8,000.
- Low-income, unbanked individuals need:
 - Simple checking and savings accounts
 - Credit building and repair programs
 - Financial education training
 - Check-cashing programs that provide immediate access to their cash

How Government Helps

- Congress adopted the Community Reinvestment Act in 1977 to ensure that banks did not redline.
- Critics say the Act is ineffective because it only considers a bank's CRA rating in deciding whether to grant a bank permission to open a new branch or make an acquisition.
- More recent criticism has focused on inconsistencies in enforcement and grade inflation.
 - Between 1996 and early 2001, only 11 of the 1,500 banks evaluated received a less than "satisfactory" score on their CRA Service Test.
 - In 1992, 90 percent of lenders received a CRA score of outstanding or high satisfactory; in 1999 and 2000, 98 percent of lenders received one of those two scores.

How Government Can Do More

- The most common legislative approach to encouraging banks to invest in low-income neighborhoods is to offer incentives.
 - New York State's Banking Development Districts Initiative allows local governments to offer economic incentives in exchange for a bank's commitment to better serve underserved neighborhoods.
- New Jersey should consider legislation that would prohibit state money from being invested in banks that do not meet established standards.

Applied Public Policy Tools

- Importance of thorough, non-biased research
- Integration of research and analysis with politics
- Understanding of politics and the political process

Lessons Learned

- NJISJ: A Social Think and Do Tank
- First-hand view of the problems facing low-income neighborhoods and individuals
- The role of non-profit organizations in government

