

# Policy Brief

September 2018

## Access to Financial Services

Financial well-being<sup>i</sup> is still a distant dream for many. According to the recent Report on the Economic Well-Being of Households, more than two in ten adults cannot pay their bills in full each month, and four in ten could not come up with \$400 to cover a financial emergency without borrowing.<sup>ii</sup> As Hoosiers continue to strive toward financial well-being, increasing access to affordable financial services like checking accounts, loans, lines of credit, and savings and investment vehicles has the potential to accelerate movement toward individual and household goals.

Affordable and accessible financial services can promote financial well-being: Checking accounts facilitate the array of monthly transactions individuals must engage in to secure housing, utilities, transportation and other purchases. Savings and investment vehicles – like rainy day or retirement accounts - can provide important buffers and propel households toward their longer-term goals. And credit, when affordable and accessible, can fund asset development through home purchases and education. To promote rather than diminish financial well-being, however, financial services must provide transparent and cost-effective means of saving, borrowing, and buying.

As Figure 1 shows, access to financial services is by no means the sole ingredient for financial well-being. Nor is it impossible to be financially successful from outside mainstream financial institutions and services. Rather, financial services are tools that can be a critical component of success if they are employed with the appropriate knowledge, social conditions, and income.<sup>iii</sup> Financial skills, confidence, and money management behaviors also have strong, positive associations with financial well-being.<sup>iv</sup>

Figure 1. Factors influencing financial well-being



Source: Consumer Financial Protection Bureau, “Financial Well-Being: The Goal of Financial Education,”

## Hoosiers' Access to Financial Services

Opening a bank or credit union account is considered one of the first steps to building assets and participating successfully in economic life. This is largely because **unbanked** households are likely to pay considerably more for services banked customers can typically access for free, like cashing a check. In fact, estimates suggest that households without a bank account could pay \$40,000 over a lifetime to cash paychecks.<sup>v</sup> Adults with a checking or savings account rate their financial well-being higher than adults who do not.<sup>vi</sup>

At the same time, some households may be “banked,” but still turn to high-cost non-bank sources for at least some of their basic transaction or credit needs. Referred to as **underbanked**, these households have a checking or savings account and have used non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own services, or refund anticipation loans in the past 12 months. Both unbanked and underbanked rates are higher among lower-income households, Black and Latinx households, and working-age disabled households.

Hoosiers are ahead of the curve when it comes to access to checking and savings accounts. Only 4.8% of Hoosiers were unbanked in 2015, as compared to 7% of the U.S. and below each of our neighbors. However, nearly one in five Hoosiers is underbanked, meaning they are paying more for services that might otherwise be free or low-cost.

Table 1. Percent of households that are unbanked and underbanked

	IN	OH	MI	KY	IL	U.S.
Unbanked households	4.8%	5.8%	6.0%	9.0%	7.1%	7.0%
Underbanked households	18.2%	17.5%	19.8%	18.2%	14.3%	19.9%

Source: Prosperity Now Scorecard (based on 2015 FDIC data)

Beyond enabling low- or no-cost participation in day-to-day financial transactions like check cashing and remitting payment, financial services also facilitate wealth-building. Basic savings are critical for weathering financial emergencies or funding down payments on high-ticket items like home and car purchases. On this front, Indiana is slightly behind the curve nationally and has a slightly lower percentage of households with savings accounts than most neighbors.

Table 2. Percentage of households with savings accounts

	IN	OH	MI	KY	IL	U.S.
Households with savings accounts	68.5%	71.0%	78.2%	50.1%	73.1%	70.8%

Source: Prosperity Now based on 2015 FDIC data

In addition to basic savings accounts, access to a retirement savings vehicle can be a critical element of financial well-being. Given the significant decrease in workplace pensions – only about 27% of civilian Hoosier workers had access to a defined benefit plan through their employer in 2017<sup>vii</sup> - retirement savings vehicles are critical to Hoosiers looking to retire with dignity. Individuals with access to employer-based retirement savings also tend to rate themselves higher on scores of financial well-being.<sup>viii</sup>

Currently, however, many lack this access, and among those with access, take-up rates are far from 100%. Table 3 shows that only about 60% of working people have a retirement savings account through their employer. States in the East North Central Midwest (Illinois, Indiana, Michigan, Ohio, and Wisconsin) fare slightly better, with 64 percent of working people having access to retirement accounts through an employer. As the table also shows, people who work in low-wage jobs or who work part-time are less likely to have access.

Table 3. Percent of employees with access to and participation in defined savings plans through their employer

	Defined contribution		
	Access	Participation	Take-up rate
All U.S. workers	59%	40%	69%
East North Central Midwest workers	64%	43%	68%
Lowest 25 percent earners	40%	20%	51%
Part time workers	32%	16%	52%

Source: Bureau of Labor Statistics, 2018

While this data does not touch on all of the financial services one might hope to use (or avoid) over the lifespan, they are some of the most fundamental. Checking, savings, and retirement accounts form a sort of bedrock of a household's financial life. And our usage rates for costly alternative financial services coupled with low access to basic savings and retirement vehicles suggest that more can be done to foster financial inclusion.

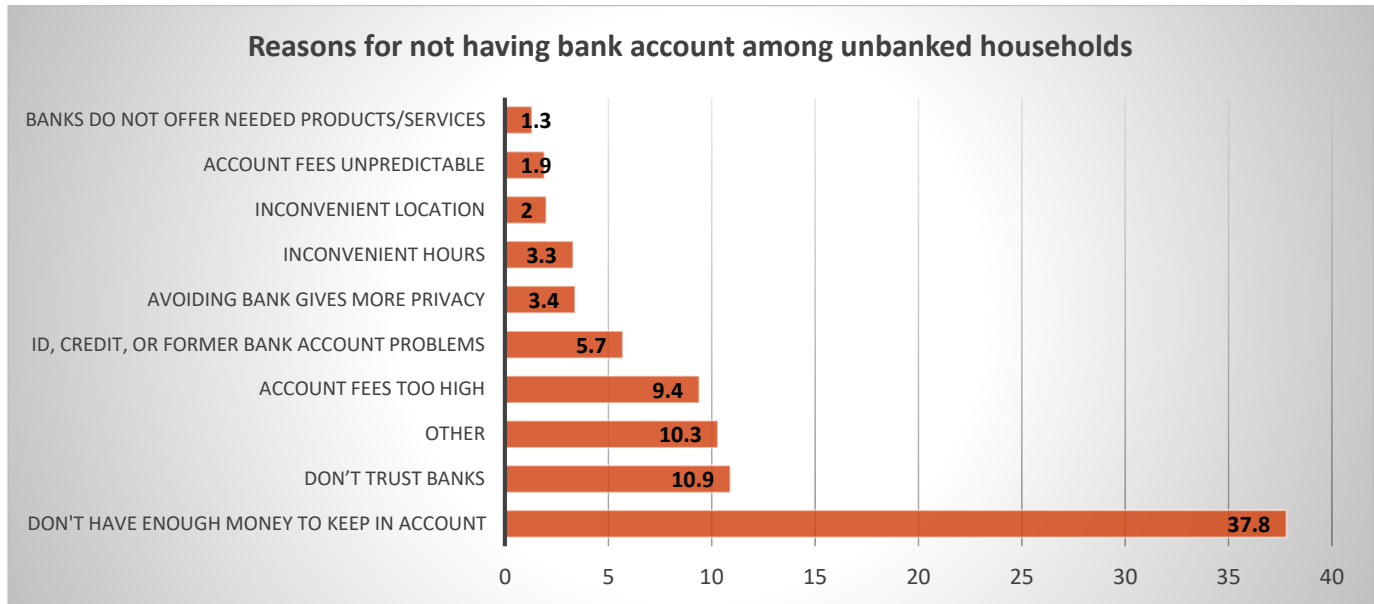
## Barriers to Access

A critical question, then, is why do gaps in access exist and how can we better ensure that financial tools are accessible to all? Survey and enforcement data have revealed the following barriers. Although this list should not be considered exhaustive, it highlights some of the key reasons individuals remain unbanked or underbanked.

**The cost of maintaining an account.** The FDIC surveyed unbanked households, breaking down the main reason they did not have a bank account. As Figure 2 illustrates, by far the most common answer was “Do not have enough money to keep in an account.” “Account fees too high” was also a popular response, suggesting that lack of access to bank accounts may have the most to do with the costs of maintaining an account relative to a household's income.

**Branch locations and hours of operation.** While a growing range of financial services are now available online, physical branch locations remain important, particularly to lower-income households. Forty-two percent of lower income household primarily conduct transactions at a branch, while 7% use mobile banking.<sup>ix</sup> However, branch closures can leave some communities without access to a physical location for conducting financial transactions.

Figure 2. Reasons for not having a bank account among unbanked households



Source: FDIC 2015

**Predatory financial products and costly overdraft fees:** Many unbanked customers were, at one time, “banked.” Evidence from research on both non-bank and bank payday loan products as well as studies of overdraft fees suggest that customers without large cash reserves can quickly overdraw accounts, resulting in involuntary account closure.<sup>x</sup> The Consumer Financial Protection Bureau found that consumers whose debit cards could trigger overdraft fees were more than twice as likely to have their accounts involuntarily closed than those who were not “opted in” to debit card overdraft fees.<sup>xi</sup> At the same time, the Consumer Financial Protection Bureau finds that among borrowers who took out online payday loans, half accrued overdraft fees and of those with overdrafts, one third have their account closed.<sup>xii</sup>

**Discrimination:** In spite of laws like the Equal Credit Opportunity Act and Fair Housing Act that bar denial of credit on the basis of certain characteristics like race and gender, discrimination in lending continues to disproportionately block access for some groups of consumers. For example, the Center for Investigative Reporting engaged in a year-long analysis of 31 million records, finding patterns of denial for people of color across the country – including Fort Wayne, Indiana, where similarly situated black mortgage applicants were more than twice as likely to be denied for a conventional home mortgage than white applicants.<sup>xiii</sup>

**Difficulty of opening accounts and setting aside funds:** Particularly with respect to savings, the relative ease of access affects account opening and savings rates. AARP Public Policy Institute finds that when comparing individuals with employer-based savings vehicles to those without, employees with access through their employer are 15 times more likely to save regularly.<sup>xiv</sup> The time investment and knowledge required for individuals to select and set up deposits to savings should not be overlooked as a barrier to access.

## Toward Improved Access

When accompanied by efforts to improve families' income levels and reduce volatility, policies and programs that promote broad access to affordable financial products and services can help families move toward financial well-being. The good news is, we already have a number of excellent programs and policies in place to boost access to services. Amplifying their effects simply requires increased public commitment or refining existing systems.

**Bolster support for Community Development Financial Institutions.** Community Development Financial Institutions are financial institutions that deliver capital, credit, and financial services to low-income, low-wealth individuals and communities. Indiana had 12 recognized CDFIs in various locations throughout the Indiana in 2017. State support for CDFIs would allow them to expand their offerings and reach.

**Incentivize or require adoption of Bank On or Model Safe Accounts Standards.** Both Bank On and the FDIC Model Safe Accounts guidelines encourage financial institutions to offer basic checking with minimal opening deposits, small monthly maintenance fees, no overdraft or NSF fees, and free online and mobile banking. However, survey data suggests that only about one in ten banks offer products that meet these guidelines.<sup>xv</sup> Policies can require or incentivize account features that promote broader access to basic checking.

**Re-examine the Community Reinvestment Act formula.** Enacted in 1977 in response to redlining, the Community Reinvestment Act (CRA) creates an obligation for federally-insured depository institutions to maintain locations in low-to-moderate income neighborhoods and meet the credit needs of the communities in which they are located. As banking habits change and more consumers are taking their demands online or to non-bank entities, there has been a great deal of energy around modernizing the formula. Doing so with an eye toward maintaining a strong focus on low- to moderate-income households and communities, acknowledging the importance of physical branches, and increasing accountability for discrimination could bolster financial well-being.

**Increase access to employer-based savings and borrowing options.** It's clear that employees are more likely to save if they are offered work-based options. Innovative solutions that would allow rainy day sidecar savings alongside retirement accounts are worth exploring, as are ways to boost employer engagement in offering savings options. At the same time, salary-based lending provides a less costly, low-risk way to make affordable small-dollar loans available to consumers. In Indiana, Consumer Loan Centers offering employer-based loans of up to \$1000 are available in 22 counties and have offered more than \$1.65 million in small dollar loans.<sup>xvi</sup>

**Prevent predatory lending practices.** Allowing predatory products and services can actually send families backward, resulting in lost checking accounts or even bankruptcy. Lending laws should incentivize responsible lending through caps on interest and fees. Indiana voters and advocates strongly support a 36% APR cap on payday and other loans,<sup>xvii</sup> similar to the Military Lending Act.

Improving access to and the affordability of financial services will set more Hoosiers on a path to financial well-being. The modest steps outlined here represent worthwhile investments to increase the health and well-being of our families and communities.

---

This policy brief was made possible through generous funding from the Consumer Federation of America and Central Indiana Community Foundation.



Our thanks to the many individuals who provided informational interviews and/or feedback on drafts, including Anju Chopra and Doug Ryan, Prosperity Now, and Logan Charlesworth, Indiana Assets & Opportunity Network.

---

<sup>i</sup> The Consumer Financial Protection Bureau defines financial well-being as:

- Having control over day-to-day, month-to-month finances;
- Having the capacity to absorb a financial shock;
- Being on track to meet your financial goals; and
- Having the financial freedom to make the choices that allow you to enjoy life.

<sup>ii</sup> Federal Reserve, Report on economic well-being of U.S. households (May 22, 2018), accessed September 4, 2018 from <https://www.federalreserve.gov/publications/2018-economic-well-being-of-us-households-in-2017-preface.htm>

<sup>iii</sup> Federal Reserve Bank of San Francisco, *What it's worth* (2015), accessed August 18 from [http://www.strongfinancialfuture.org/wp-content/uploads/2015/12/What-its-Worth\\_Full.pdf](http://www.strongfinancialfuture.org/wp-content/uploads/2015/12/What-its-Worth_Full.pdf)

<sup>iv</sup> CFPB, Financial well-being in America, accessed August 25, 2018 from [https://files.consumerfinance.gov/f/documents/201709\\_cfpb\\_financial-well-being-in-America.pdf](https://files.consumerfinance.gov/f/documents/201709_cfpb_financial-well-being-in-America.pdf)

<sup>v</sup> Prosperity Now, <http://scorecard.prosperitynow.org/data-by-issue#finance/outcome/unbanked-households>

<sup>vi</sup> CFPB, “Financial Well-Being in America”

<sup>vii</sup> Bureau of Labor Statistics, National compensation survey: Employee benefits in the United States (2018), accessed August 25, 2018 from [https://www.bls.gov/ncs/ebs/benefits/2017/benefits\\_retirement.htm](https://www.bls.gov/ncs/ebs/benefits/2017/benefits_retirement.htm)

<sup>viii</sup> CFPB, “Financial well-being in America” September 2017

<sup>ix</sup> FDIC, 2016

<sup>x</sup> See, for example, Consumer Financial Protection Bureau, CFPB Study of Overdraft Programs: A white paper of initial data findings (June 2013), accessed August 24, 2018 from [https://files.consumerfinance.gov/f/201306\\_cfpb\\_whitepaper\\_overdraft-practices.pdf](https://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf); Center for Responsible Lending, Broken banking: How overdraft fees harm consumers and discourage responsible bank products (May 2016), accessed August 24, 2018 from [https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl\\_broken\\_banking\\_may2016.pdf](https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_broken_banking_may2016.pdf)

<sup>xi</sup> Consumer Financial Protection Bureau, CFPB Study of Overdraft Programs: A white paper of initial data findings (June 2013), accessed August 24, 2018 from [https://files.consumerfinance.gov/f/201306\\_cfpb\\_whitepaper\\_overdraft-practices.pdf](https://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf)

<sup>xii</sup> Consumer Financial Protection Bureau, Online payday loan payments (April 2016), accessed August 24, 2018 from [https://files.consumerfinance.gov/f/201604\\_cfpb\\_online-payday-loan-payments.pdf](https://files.consumerfinance.gov/f/201604_cfpb_online-payday-loan-payments.pdf)

<sup>xiii</sup> Center for Investigative Reporting, Banks continue to deny home loans to people of color (February 2018), accessed August 24, 2018 from <https://eji.org/news/banks-deny-home-loans-to-people-color>

<sup>xiv</sup> D. John & G. Koenig, Workplace retirement plans will help workers build economic security (October 2014), *AARP Public Policy Institute*, accessed September 4, 2018 from <https://www.aarp.org/content/dam/aarp/ppi/2014-10/aarp-workplace-retirement-plans-build-economic-security.pdf>

<sup>xv</sup> T. Friedline, M.R. Despard, R. Eastlund, and N. Schuetz, ‘Are banks’ entry-level checking accounts safe and affordable?’ University of Kansas Center on Assets, Education, and Inclusion Report, accessed August 14, 2018, <https://www.newamerica.org/family-centered-social-policy/policy-papers/are-banks-entry-level-checking-accounts-safe-and-affordable/>

<sup>xvi</sup> Prosperity Indiana, Consumer loan centers (2018), accessed September 6, 2018 from <https://www.prosperityindiana.org/>

<sup>xvii</sup> Bellwether Research and Consulting, Overwhelming public support for payday loan reform (2018), *Indiana Institute for Working Families*, accessed September 6, 2018 from <http://incap.org/documents/INPaydayLendingMemo1.22.18.pdf>

**FOR MORE INFORMATION, PLEASE CONTACT:**

Erin Macey, Policy Analyst, Indiana Institute for Working Families  
Phone: 317-638-4232

Email: [emacey@incap.org](mailto:emacey@incap.org)

Web Site: <http://www.incap.org/iwvf.html>