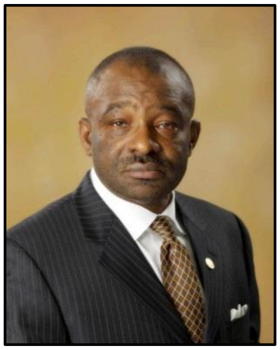

THE ANTI-POVERTY SOLDIER

By Clarence Hightower, Ph.D.

Bridging the gap between low-income communities and the financial sector

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A federal study last year found that about one in four U.S. households skirts banks and relies on services such as check-cashing and payday loans. Many of these households bring in less than $30,000 a year.

– Candace Choi

The unbanked and underbanked are more likely to fall victim to the high-rate (predatory) side of the industry, like payday, account-advance, tax refund-advance and structured, settlement-advance loans, to name a few.

– Mitchell Weiss

One of the very first *Anti-Poverty Soldier* columns in the spring of 2014 was titled, "Are you 'unbanked' or 'underbanked'?" It focused, in part, on the level of financial literacy on the state and national levels as well as the number of households classified as either "unbanked" or "underbanked." Being "unbanked" describes an individual or household that maintains no relationship of any kind with a bank or other financial institution. "Underbanked" refers to those that do have a banking relationship of some type, yet still rely on secondary financial services that charge exorbitant fees such as payday lenders, check cashing services, and pawn shops.

And, as it did in 2014 and continues to do in most quality of life measures, the State of Minnesota ranks high relative to the average economic health of its citizens and has a lower percentage of 'unbanked' or 'underbanked' households than most other states. According to the Corporation for Enterprise Development's "Assets and Opportunities Scorecard" Minnesota is the 6th healthiest state economically and rates high in a multitude of categories including household income, assets, employment, homeownership, healthcare, and education.

Nevertheless, as is also generally the case, Minnesota's high overall marks do not reflect the disparities that significantly affect people of color and low-income populations. These communities disproportionately represent the tens of thousands of Minnesota residents that are 'unbanked' or 'underbanked.'

To be fair, financial experts cite a number of seemingly legitimate reasons why an individual might choose to resist participating in traditional financial institutions. For example, they might feel that they don't earn enough money to maintain a bank account. Others may be concerned about various bank fees penalties. Then, there is the very real issue of trust and the sense of being marginalized as just another account number. There are also those individuals without a choice as poor credit or negative banking histories have disqualified them from opening accounts at many institutions.

The Improve Group, a local planning, evaluation, and consulting firm argues that "trust and respect are essential for relationship building between low-to-moderate income individuals and mainstream financial institutions." The Improve Group also notes that these kinds of relationships are easier to build and maintain with smaller community-based banks and credit unions.

In establishing trust and respect between low-income populations and financial institutions, The Consumer Financial Protection Bureau cites six strategies that are critical to relationship building. In their words, financial institutions must:

- Better understand the needs of the consumer and create products that fit those needs
- Meet consumers where they are, sometimes away from the branch in the community
- Engage with partners that already serve low-income consumers, to build trust
- Provide incentives for participation in the mainstream financial system
- Craft technology solutions that work for low-income consumers
- Maintain engagement for consumers who are not technologically proficient or prefer the human touch.

In our communities, there are financial institutions and non-profit partners that have heeded this call and seek to engage and empower underserved communities. Examples are the St. Paul-based Sunrise Bank, Western Bank, and Prepare + Propser's FAIR (Financial Access in Reach) Initiative. At Community Action, we operate a number of programs and services designed to assist low-income residents in becoming banked, building credit, acquiring financial assets, advancing education and employment, and connecting to the Earned Income Tax Credit (EITC). And, a recent grant from Otto Bremer Trust has enabled us to significantly enhance our Car Ownership Program.

While such efforts have demonstrated success and improved the financial outlook for many citizens, there is still a great need to do more. We need more and more financial institutions to step up, reach out, and dutifully serve low-income communities.

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