CRA AT FORTY

The Financial Continuum: Achieving Economic Mobility

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Throughout my more than 20 year career in banking, I have recognized the importance financial institutions have in helping people live their day-to-day lives. While fewer people are visiting a physical bank branch these days, individuals conduct financial transactions several times a day, whether by using a debit card, making online bill payments or even making person-to-person payments facilitated by apps like Zelle.

As a Community and Economic Development professional, I think one of the most important roles financial institutions can play to assist low- and moderate-income (LMI) individuals and families in achieving upward economic mobility is by helping those customers build assets. While income supports play an important role in stabilizing families, programs like TANF and SNAP are not always effective in helping people rise out of poverty.

Asset building, however, can help people move up the economic ladder. As we think about our obligations under the Community Reinvestment Act to make financial services available to low- and moderate-income communities, we need to think beyond the number of branches and ATMs and where they are located.

I like to think about LMI consumers as a part of a financial continuum. Obviously, the first phase of the continuum is to "bank" an unbanked customer, which helps them move away from very costly alternative financial services such as check cashing outfits. This alone is a huge savings for the unbanked, as estimates indicate unbanked people spend up to $40,000 more for financial services over their working life than people who have banking relationships.[1] While moving people away from these services is an important first step, it needs to be viewed as such: The first step in what should be a long-term relationship. The next step is to have conversations with the customer about their goals and some of the ways a bank can help them achieve those goals. I believe, whatever the customer's goals may be, one important role we as bankers can play in helping them achieve their goals is to help them build credit. Whether

[1] U.S. Department of Treasury Office of Financial Education, "Community Financial Access Pilot: Elements of an Effective 'Banking the Unbanked' Strategy," available at https://www.treasury.gov/resource-center/financial-education/Documents/elements_unbanked_strategy.pdf

they want to purchase a home, start a small business, buy a vehicle or even get a better job, credit will factor into any and all of these goals. Having bad credit will make any goal more difficult – and more expensive.

When I talk to a customer about credit-building, I often encounter resistance. Often LMI consumers are reticent to take on debt. They either fear they will get in over their head, or they operate under a mentality of "if I cannot afford to pay cash for a purchase, I shouldn't be making it." Those are legitimate concerns for all of us, not just LMI consumers.

In those discussions, I present having excellent credit as a vehicle to maximize your options in any given situation. For example, if your car breaks down and you have a 720 credit score, the auto shop is likely to let you finance repairs, possibly even for 90 days or six months with no interest. Alternatively, if you have a 580 credit score, you will have to pay upfront for the repairs. In that situation, the 720 credit score will give you a range of options from which to make the best financial decision for yourself in that moment. With the 580 score, you have two choices: pay up front or don't get your car fixed. Credit, when approached responsibly, is an asset – and a valuable one.

Often, consumers have no idea where to start in building their credit. Some have had credit in the past, made mistakes and think they will be stuck with poor credit forever. Others have never had credit and are frustrated they are unable to get approved. This is an opportunity to introduce secured lending products to consumers. Secured credit cards are a useful tool in building credit for the first time or rebuilding credit from past mistakes. But it is very important to coach the customer to effectively manage the cards. I strongly encourage people to pay their balances off on a monthly basis to avoid interest charges. The adage that you shouldn't buy what you can't afford still works with credit cards. If you can't pay off your purchases when they are due, opt not to make the purchase. I also emphasize if they are carrying a balance to keep that balance at 30 percent or less of the available credit so they are not damaging their credit score.

Another conversation on the continuum is to leverage matched savings accounts or Individual Development Accounts. The concept of matched savings accounts evolved in the early 1990s to give LMI customers an opportunity to save for a significant asset such as a home, a small business or higher education which would help lift them permanently out of poverty.

Financial institutions play several important roles in helping consumers with IDAs. First, they can provide dollars for the matched portion of the accounts. Typically, for every dollar the consumer saves, they are matched, most typically on a four-to-one basis. Obviously, the match accelerates and in most cases, facilitates the consumer's ability to accomplish their goal, whether that's the purchase of a new home, starting or expanding a small business or pursuing higher education. Additionally, with the match, the individual is building equity in their home or their business, or they don't have to take on additional debt to pursue their education.

The second role a financial institution can play with IDAs is to actually open and house the accounts and provide reporting to the partner organization. This gives banks an opportunity to build a relationship with the account holder, potentially resulting in additional opportunities for other deposit relationships and loans.

Finally, working with the nonprofit IDA sponsor and building a partnership can create new opportunities for service for the bank. These new opportunities could be board service, technical assistance or financial education for their clients. These relationships can improve the bank's CRA performance.

Another exciting new opportunity banks have to help vulnerable customers build assets is to offer the recently approved ABLE (Achieving a Better Life Experience) accounts. ABLE accounts allow for disabled individuals to save for their future needs and not have those funds count as part of their asset test for public benefits. These accounts also allow for family and concerned friends to make deposits to help individuals build their savings. This is an important because so often, disabled people struggle when unexpected events occur because they cannot have more than $2,000 in assets. ABLE accounts can help disabled people build emergency savings and have more security and peace of mind.

Banks play an important role in the lives of our customers, providing access to and security for their money. LMI consumers often may be skeptical of financial institutions, but have the same needs, including access and security, as anyone else. Banks should take extra steps to provide products and services, which can help overcome skepticism and fear LMI consumers may have about developing a banking relationship. Products designed to help them achieve their personal financial goals position banks to be partners in our customer's financial lives. This partnership, I believe, leads to longer and deeper relationships. This creates a win-win-win situation. It is a win for the customer as they achieve their goals. It is a win for the financial institution as it opens up a larger customer base. And it is a win for communities as it provides opportunities to help families achieve prosperity.

ABOUT THE AUTHOR

ADAM HALL is a community development professional with Fifth Third Bank, where he serves as a Community and Economic Development Manager. He has served on the Mayor's Taskforce on Foreclosure Prevention, the Neighborhood Stabilization Committee, volunteered for Habitat For Humanity, New Directions Housing Corporation's Repair Affair and provided financial education with a wide range of nonprofit and government agencies. He is a member of the Executive Committee for Bank On Louisville and a member of the Board of Directors for Shively Area Ministries, Housing and Homeless Coalition of Kentucky, New Directions Housing Corp, St. Benedicts Center for Early Childhood Education, the Office of Safe and Healthy Neighborhoods Advisory Committee, Louisville Housing Opportunities and Microenterprise Community Development Financial Institution, Smoketown Neighborhood Association and the Governing Committee for the Evansville Promise Zone.

ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40th anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit www.findCRA.com/CRAat40.