

The Importance of Financial Access for Financial Well-being

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Event: Institute for Research on Poverty

University of Wisconsin-Madison

Date: October 30, 2024, 1-2pm Central Time



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Background

Financial well-being

Consumers struggle with their financial well-being. About 30% of U.S. adults do not view their financial situation as at least “doing okay” (Board of Governors of the Federal Reserve System, 2024).

Financial well-being: (CFPB, 2018)

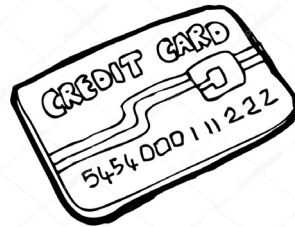
- Control over day-to-day and month-to-month expenses
- Capability to absorb a financial shock
- A plan to meet financial goals
- Financial freedom to make choices to enjoy life



Financial Access: What is it?

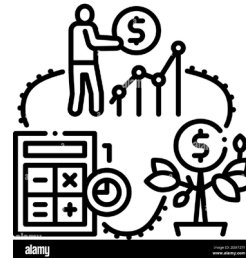
Relates to:

- Specific products/services that are affordable, convenient, and beneficial
- Fair and equal treatment
- Lack of barriers to owning products/services
- Mainstream institutions that are welcoming and attractive as compared to non-mainstream alternatives.



Retirement Savings

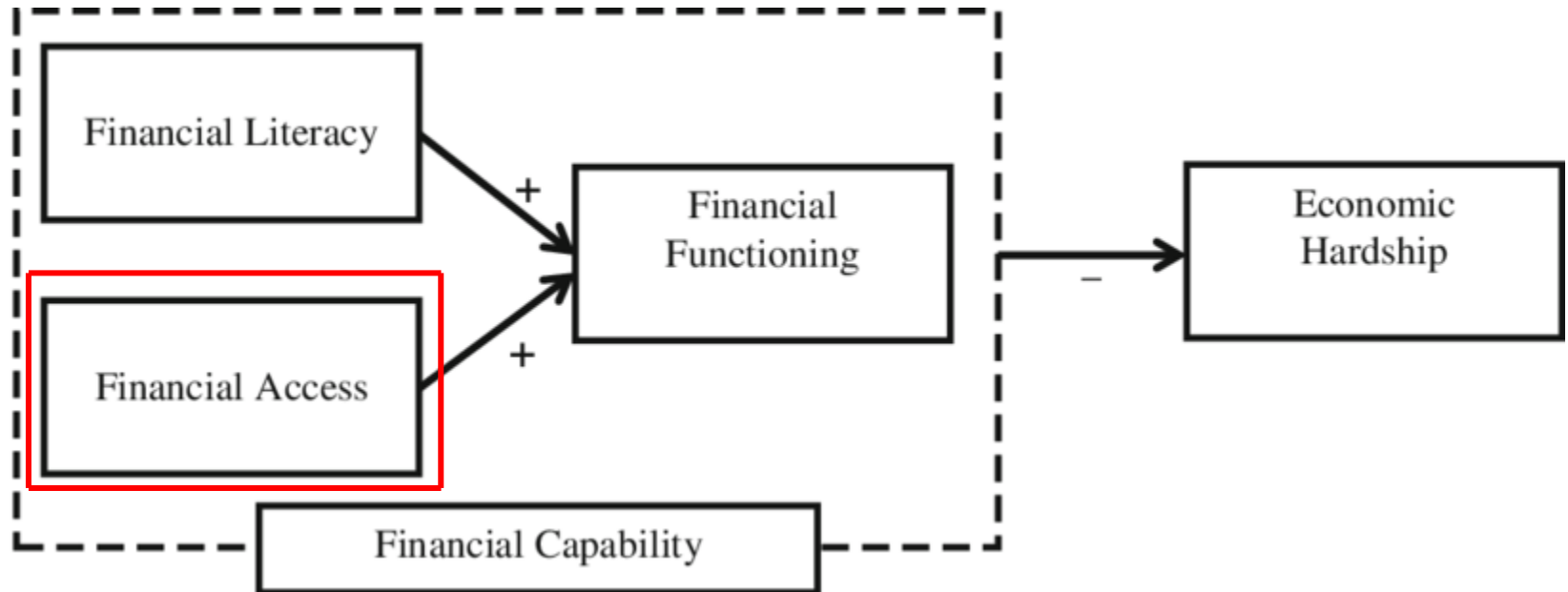
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Financial Access and Financial Capability for Financial Well-Being



Financial Access Research

- Related to many products:
 - Checking and savings accounts
 - Life insurance
 - Health insurance
 - Retirement savings accounts
 - Non-retirement investment accounts
 - Homeownership
 - Credit
 - Financial counseling/coaching/advising
- Holistic concept
 - Affordable, appropriate, convenient, beneficial, reliable and secure
 - Relates also to institutional practices and institutional and societal policies
 - Individual resources and intrinsic qualities and abilities
 - Individual financial action and perception



Problems with Financial Access

Great disparities across the U.S. general population:

- 58% have employer or non-employer sponsored retirement account (Lin et al., 2019)
- 32% have non-retirement investment accounts (Lin et al., 2019)
- Nearly 41% had used one or more non-bank borrowing method in the past five years in 2021 (FDIC, 2021)
- Over 45 million lack access to formal credit due to lack of credit history/thin file (Brevoort et al., 2015)
- Only 38% of Americans worked with a financial advisor in 2020 (Norrestad, 2021)

Racial/ethnic disparities

- 11.3% of Blacks are unbanked, 9.3% of Hispanics, 2.1% of Whites (FDIC, 2021)
- Retreat of banks from some communities/reliable internet access/technology
- Discriminatory practices, policies, and treatments (personal and systemic level) (Sanchez-Moyano & Shrimali, 2021).



What Does Research Tell Us About Financial Access?

Importance: Contributes more to financial behaviors and financial well-being than does **financial knowledge** (Huang & Sherraden, 2019; Sun et al., 2022)

My research suggests:

- Is multifaceted and complex – beyond bank accounts
- Does not necessarily improve with better economic conditions (Birkenmaier & Fu, 2022)
- Bank account access methods matters to financial well-being (Birkenmaier & Fu, 2021)
- Policymaking bodies, such as the CFPB, could take stronger, independent action to address financial access issues (Birkenmaier, 2024)

Having financial access:

- Buffers the effect of debt collection experience (Birkenmaier & Jung, 2024)
- Buffers the effect of income volatility (Birkenmaier & Fu, 2019)
- Strongly influences financial management behavior (Birkenmaier & Fu, 2019)



Research Findings to Policy Practice

1. Focus on broad array of financial products, services, policies and practices (not only bank account ownership)
2. Explicit policy attention to unbanked and underbanked populations for financial access (minoritized populations and communities) (Birkenmaier & Janssen, 2021)
3. Retain bank branches/person-to-person services (Birkenmaier & Fu, 2023; Birkenmaier & Stratman, under review)
4. Incentivize banks to provide detailed product/service cost information online for comparison purposes (Birkenmaier, Huang & Balu, 2021)
5. Support the CFPB and other policymakers in efforts to increase access to underserved communities (Birkenmaier, 2024)



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Community Financial Services & Consumer Well-being

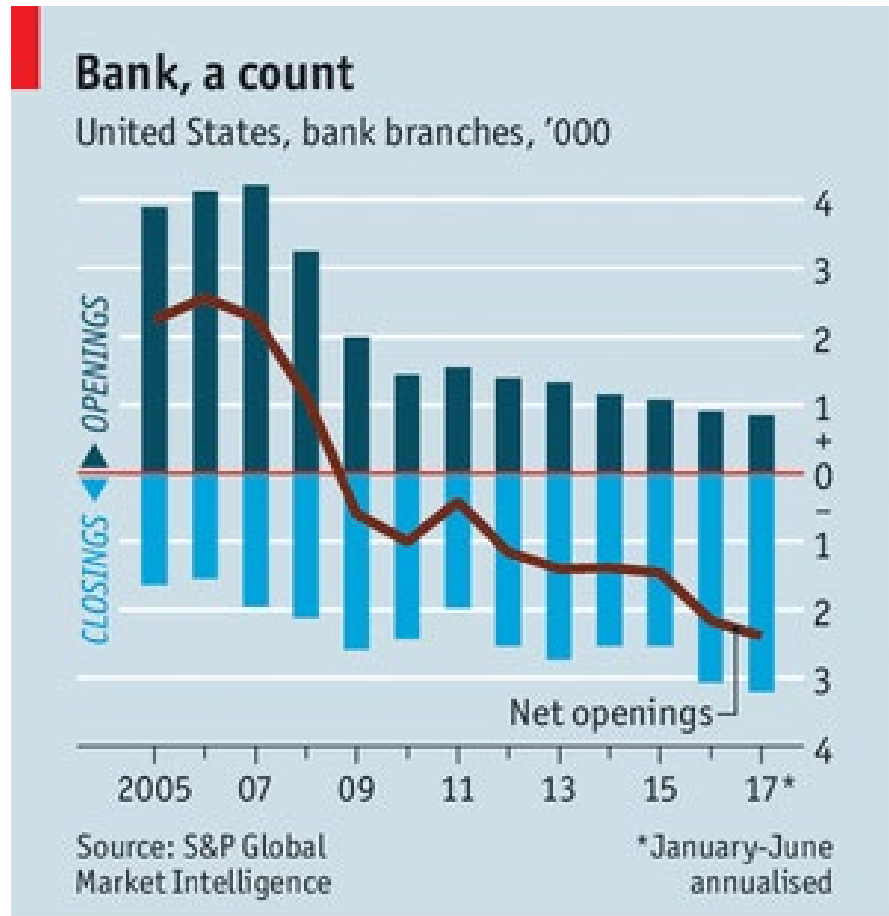
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Geographic Proximity to Services (Still) Matters

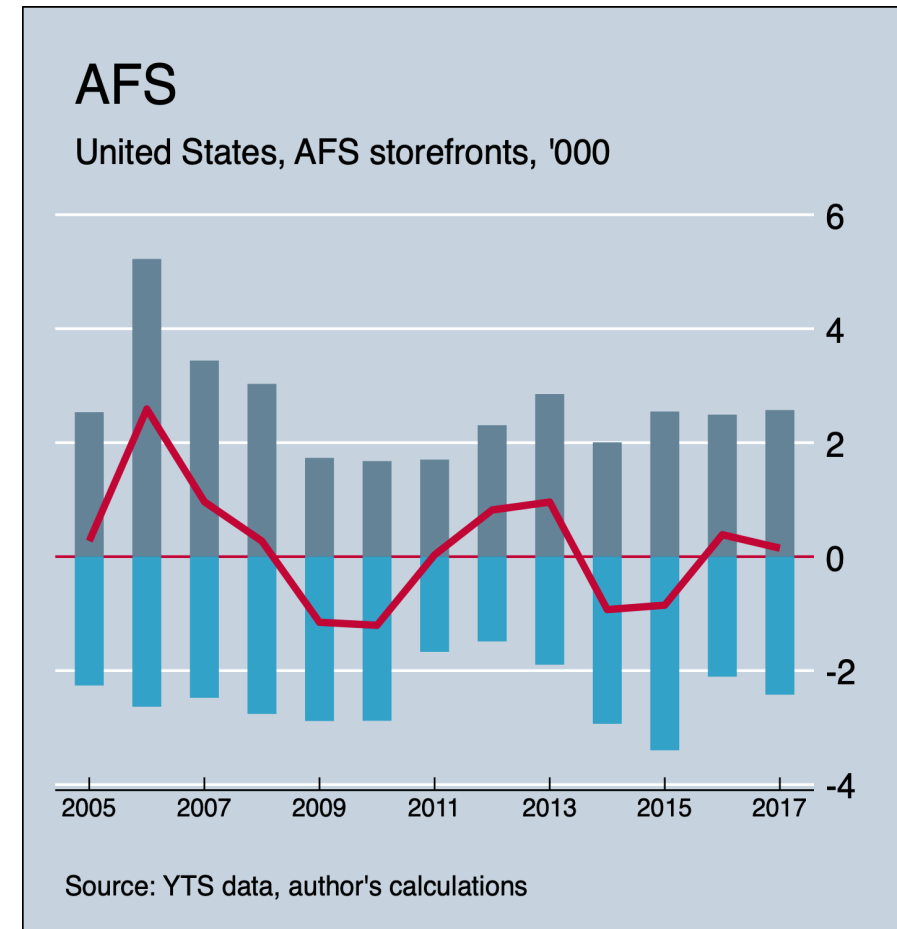
- People make financial transactions in person, especially low-income and older adults (FDIC 2021)
- Proximity of services is linked to use:
 - Living near an AFS provider or Bank increases probability of using of that service (Celerier and Matray; Friedline and Kepple 2017; Goodstein and Rhine 2017)
 - If a local bank closes, there is a decline in probability of having a bank account and small increase in probability of using AFS (Blanco et al. 2021)

Changing Geography of Services



Economist.com

FDIC data shows about 77,000 branches open in 2017.



Includes payday lenders, check cashers, auto title lenders and pawn lenders. Over 37,000 storefronts open in 2017.

Institutional (Dis)Investment in Neighborhoods

Financial organizations as making active choices about where to operate:
investing in *place*.

This investment

- Is profit-oriented - taking fees and interest in exchange for services.
- Is spatially unequal: Banks tend to branch in higher-income, whiter neighborhoods; AFS in lower-income communities & communities of color (Faber 2019; Friedline et al. 2024; Small et al. 2021)
- Has implications for well-being of community and its residents:

Institutional Investment in Neighborhoods

Economic Wellbeing:

Type of service investment matters for later poverty levels.

Predicted Poverty Rate in 2015, by Financial Service Investment

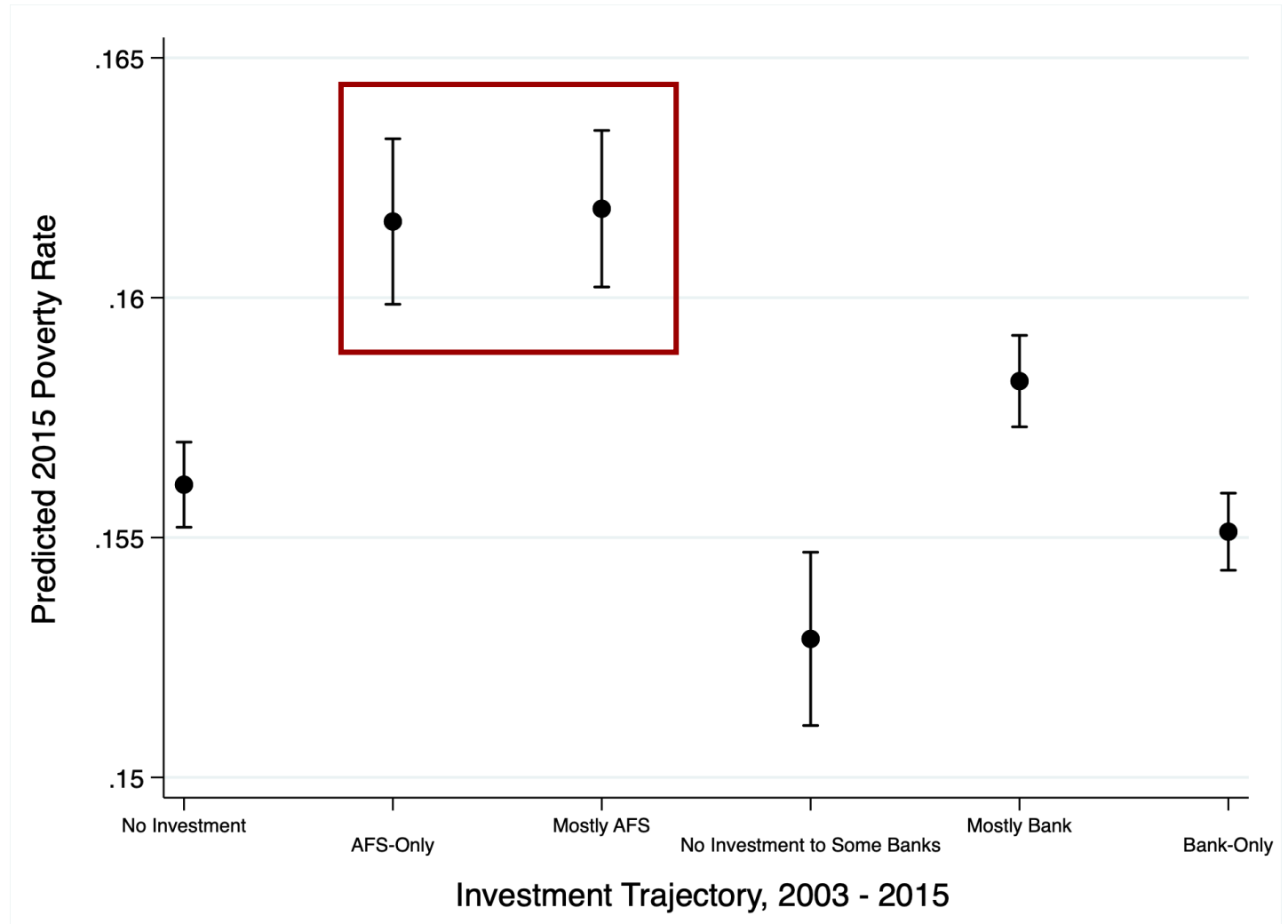


Figure from Bea 2023

Institutional Investment in Neighborhoods

Health and Wellbeing:

Payday lender presence linked to higher premature deaths.

Predicted Excess Premature Deaths, by Payday Lender Presence

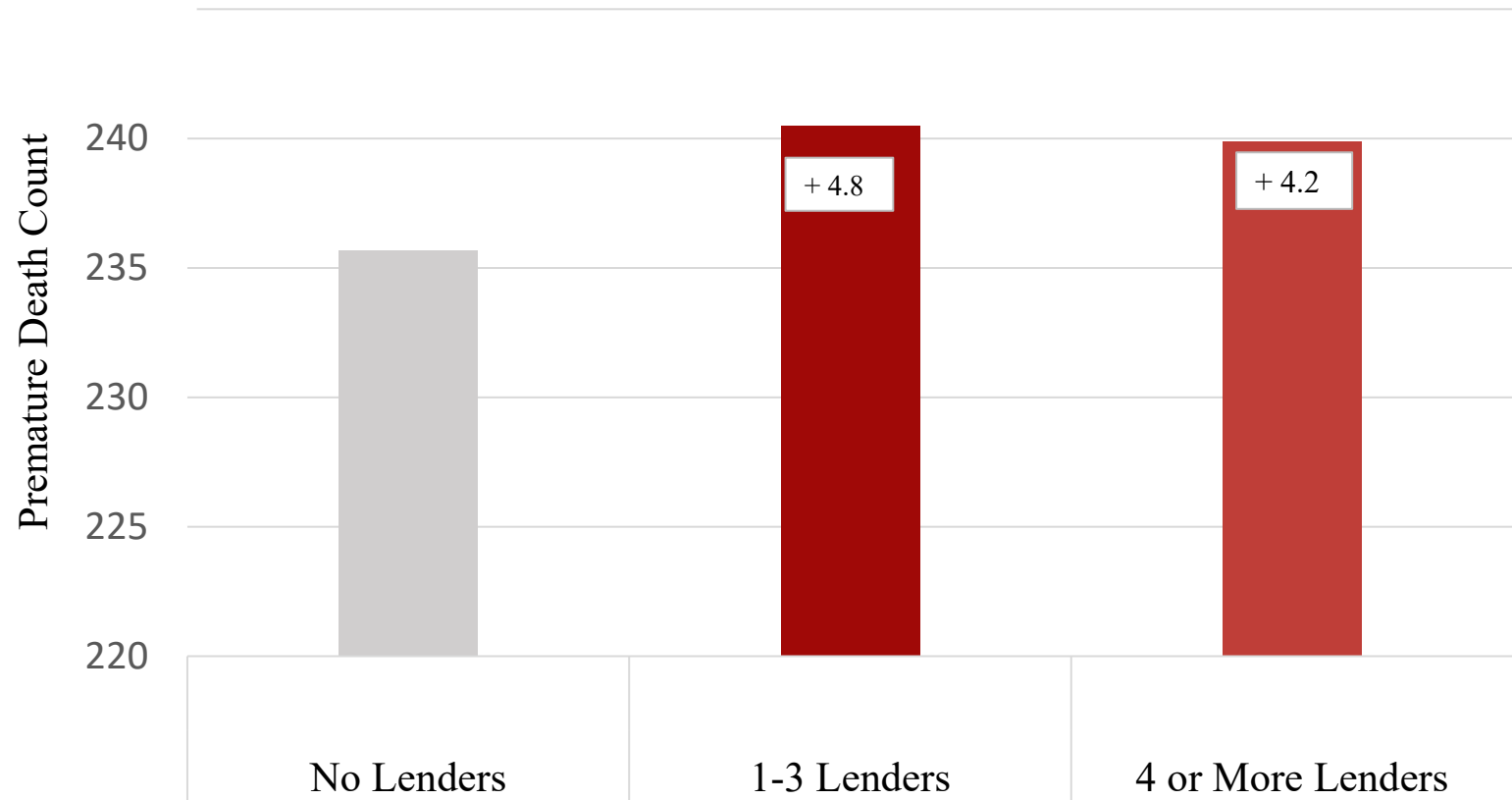


Figure from Agnew, Bea, and Friedline 2023

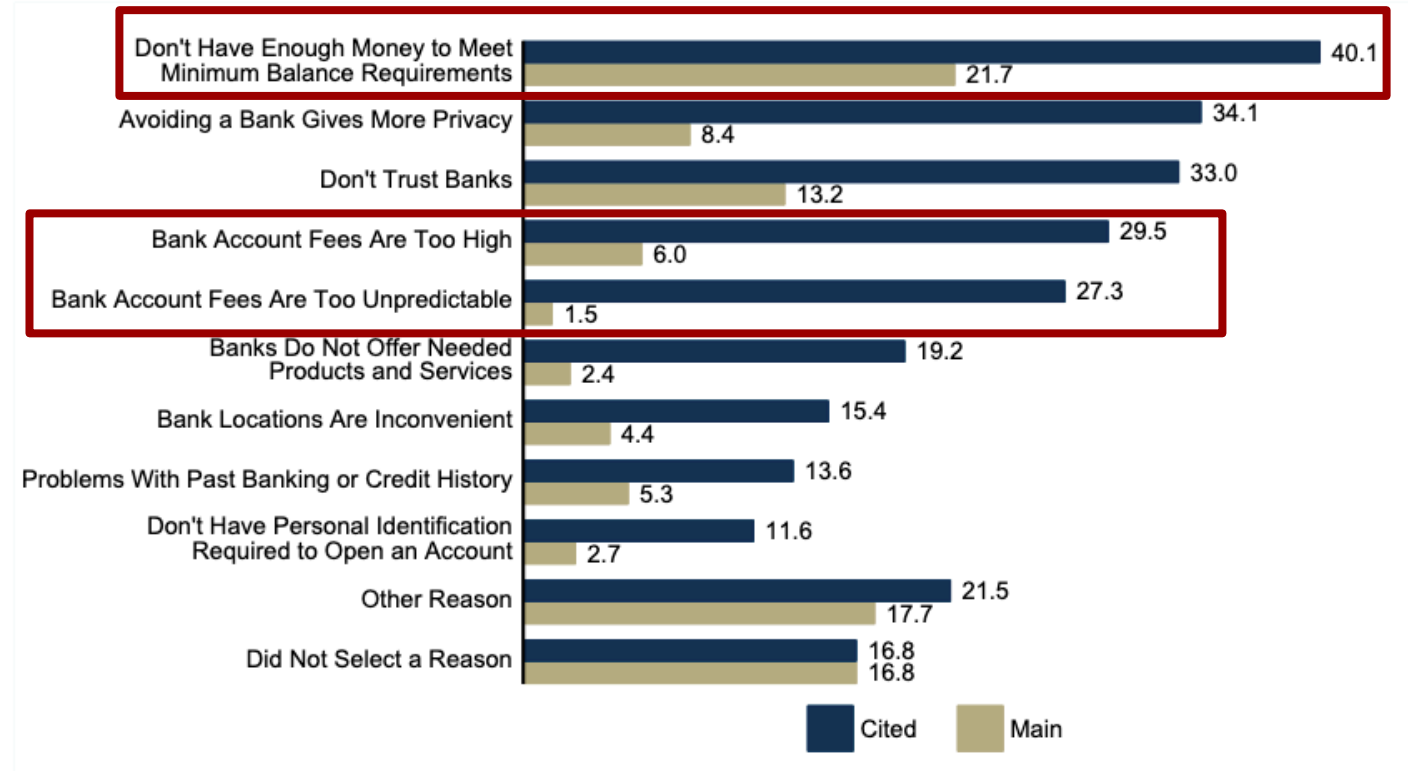
Policy & Financial Service Access

Direct regulation & industry oversight is important, but likely insufficient to change financial service landscape.

Current regulation of industry does not directly address consumer needs that leads to AFS use.

2021 FDIC survey:

Figure ES.3 Unbanked Households' Reasons for Not Having a Bank Account, 2021 (Percent)



Social Policy Opportunities

Can we address income insufficiency in other ways?

Idea: Giving lower-income families more direct financial or in-kind support could reduce **need for** high-cost credit. AFS creditors would respond to declining demand by reducing presence in communities.

Test: We look at variation in states' generosity of social program packages (e.g., SNAP benefits).

Result: Payday lenders are sensitive to changing generosity: local payday lender openings decline as SNAP benefits become more generous. Suggests that states with high SNAP generosity see a reduction in lender survival.

From Bea, Amorim & Friedline 2023

In Sum

- Local financial service presence has implications for use of services and economic and social well-being
- Spatially unequal investments by banks and AFS; leading to unequal access in terms of quality and cost.
- Potential to use **social policy levers** to change local financial service landscape.
- Need **additional solutions** to better support and protect families.

Thank you!

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Access to Financial Systems and Advancing Well-Being for Vulnerable Communities and Individuals

October 30, 2024

Karen Murrell



Grantmakers Advancing Economic Equity



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Financial Services Strategies and Solutions

- › **PRODUCTS** developed to meet the needs of low-income individuals and delivered to facilitate access (Financial Wellness in the Workplace)
- › **PRACTICE** solutions to address debt and promote financial well-being (Southern Partnership to Reduce Debt)
- › **POLICY** and advocacy approaches to advance systemic change and address equity (Southern Partnership to Reduce Debt)

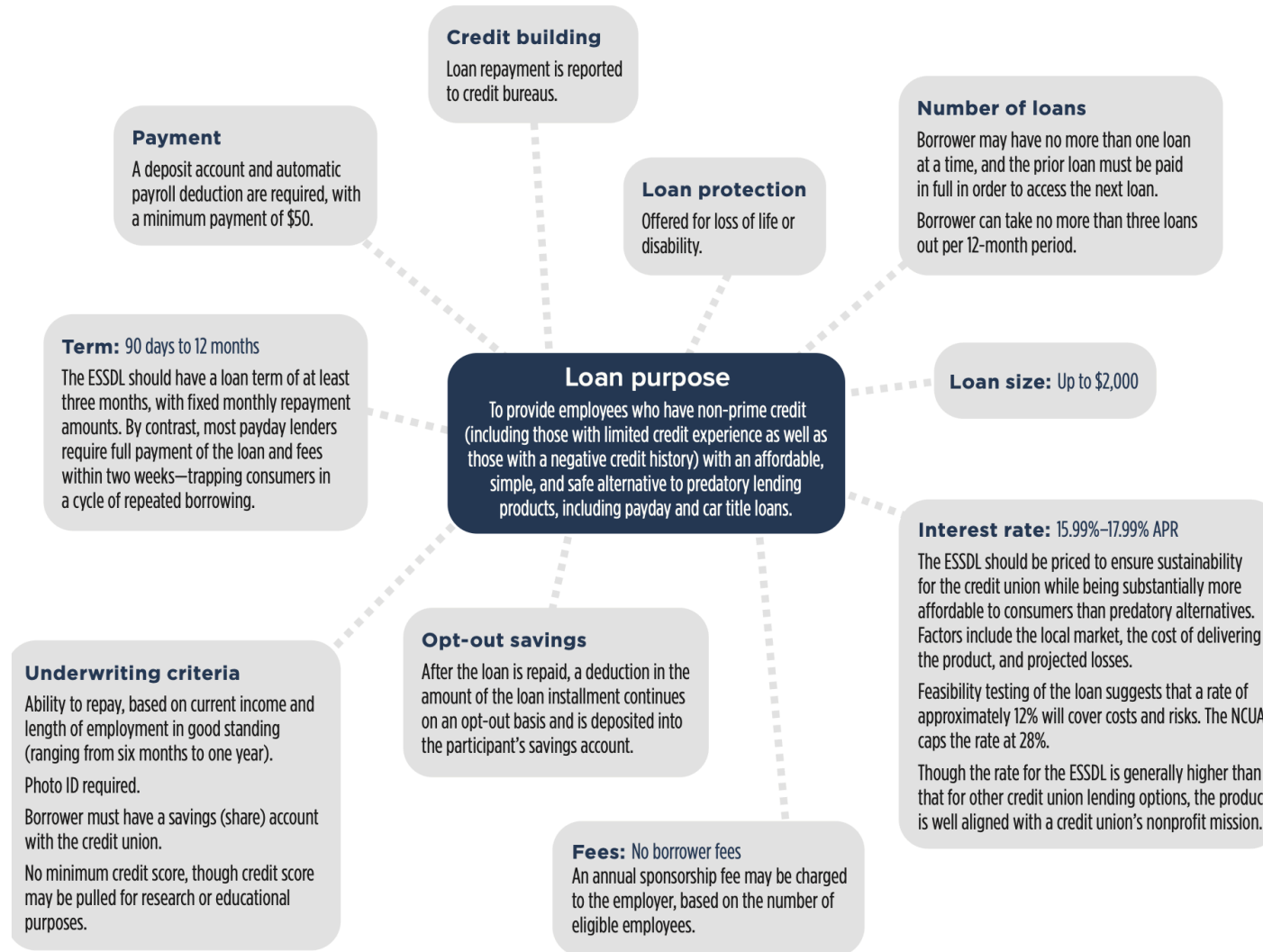


Financial Wellness at Work and ESSDLs

- The FINRA Foundation and United Way Worldwide maintain a national network of nonprofit organizations that help employers make financial wellness a seamless part of the workday.
- The organizations provide various supportive services at the workplace, during working hours, with the goal of helping employees increase their financial stability and achieve their financial goals.
- A key component of the program is the Employer-Sponsored Small-Dollar Loan (ESSDL).

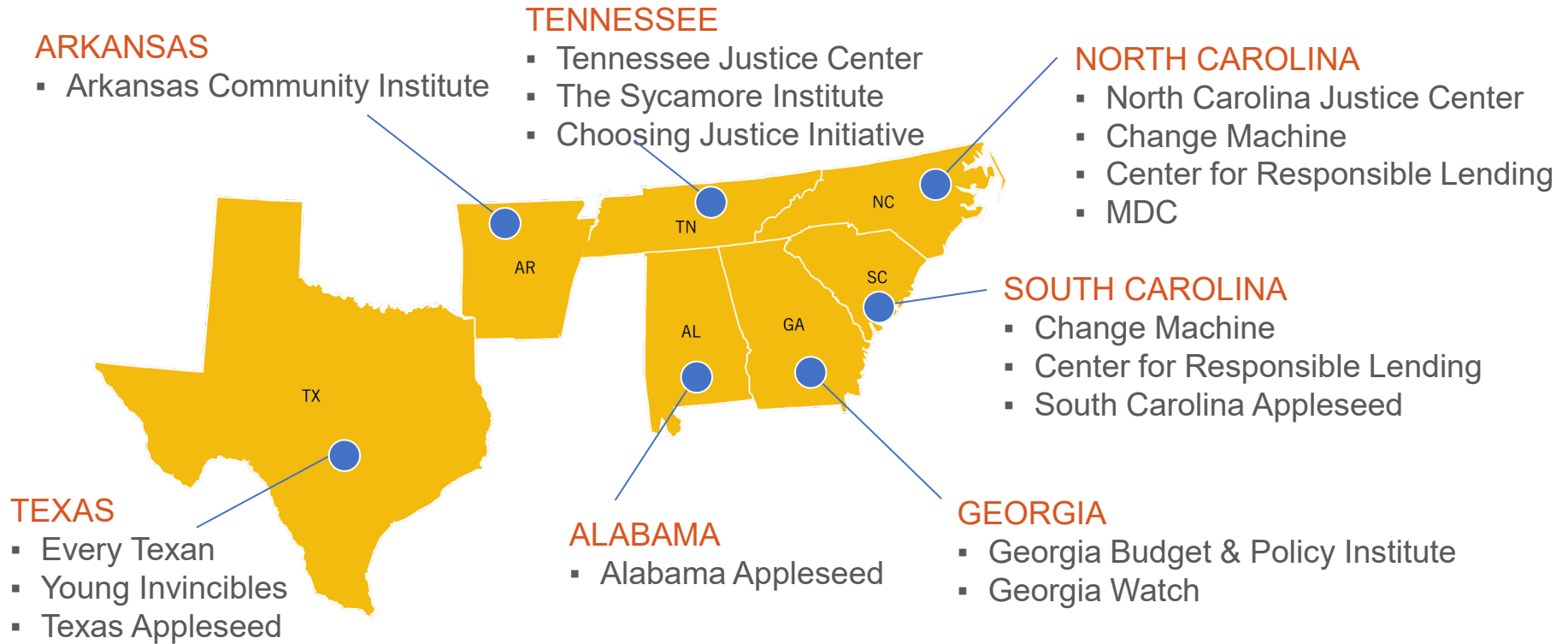


ESSDL Optimal Program Parameters



Source: FINRA Investor Education Foundation, Filene Research Institution

SPRD State and National Partners



Practice Solutions to Address Medical Debt

Medical debt...

- is the number one cause of bankruptcy in the U.S.
- is the most common form of debt in collections
- amounts are smaller than might be expected, less than \$1000 at the median
- more prevalent in the South and in communities of color



PRACTICE SOLUTIONS:

Opportunities to Solve Medical Debt

Prevent Medical Debt

- **Adoption or scale programs that connect consumers to public health insurance or charity care**
- Adoption of financial assistance standards at city, county, state, or hospital level
- Increase grant aid

Support Individuals in Managing Medical Debt

- Adoption, expansion, and hospital system integration of financial coaching programs
- Pilot and expansion of employee benefit models for medical debt management
- Pilot and expansion of tools that help consumers negotiate down and manage medical debt payments

Mitigate Effects of Medical Debt

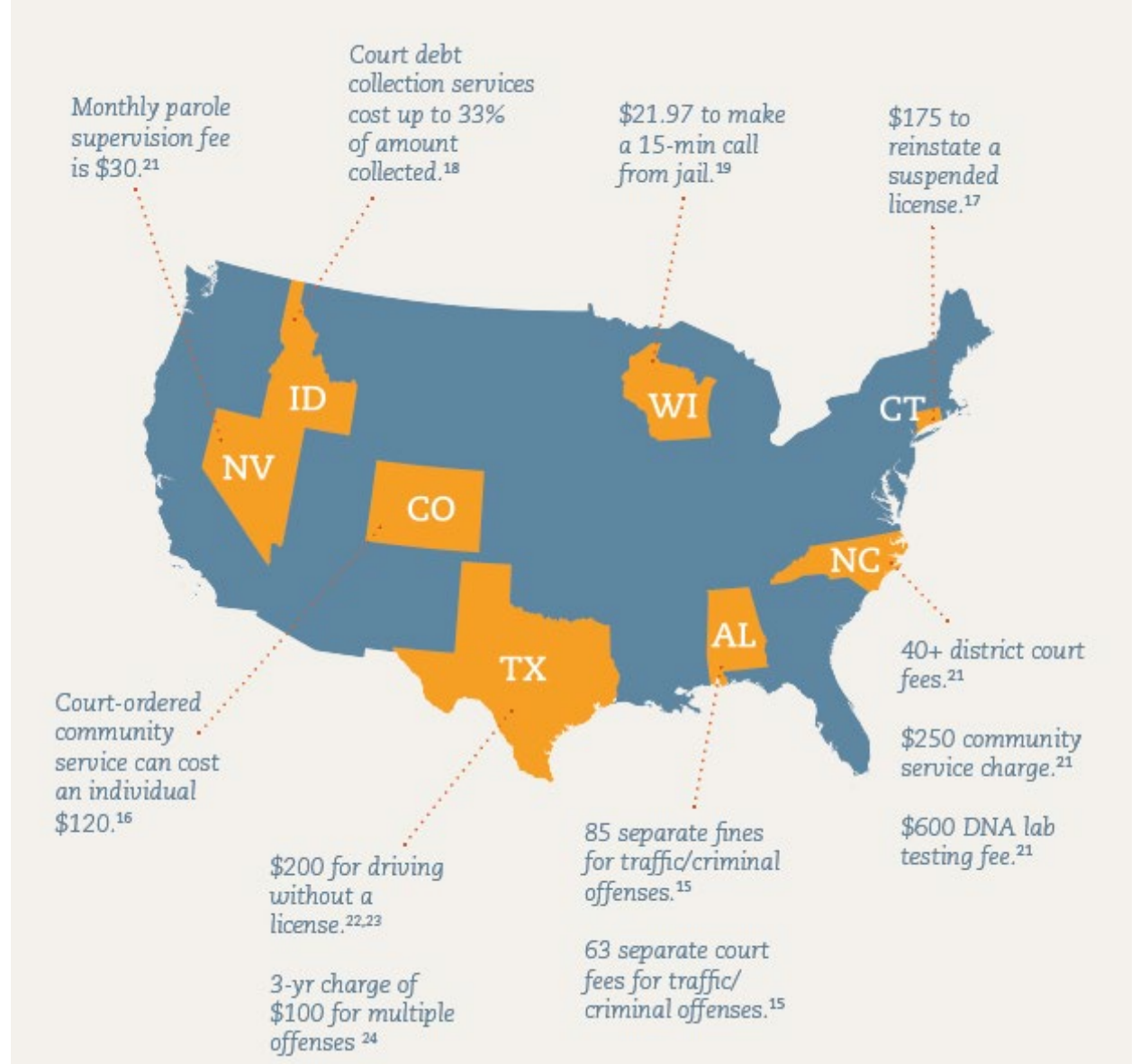
- **Adoption or scale of programs that cancel medical debt**
- Expansion of community access to legal aid representation
- Support and expansion of legal technology solutions for debt litigation
- Pilot and evaluation of programs to signal reforms in debt litigation



POLICY SOLUTIONS

Burdensome fines and fees exist from coast to coast.

The types of fines and fees may vary by state, but the subsequent harm remains the same.



The Impact of Fines and Fees

Individual Impact

- Lost Wages - Aggressive collection methods
- Unemployment - DL suspensions
- Decreased Credit Score - Collections reporting
- Jail Time - Modern-day debtors' prisons

Collateral Impact

- Impacts of families
- Impact on communities
- Impact on law enforcement
- Impact on businesses and the economy
- Impact on the racial wealth gap

The Alabama Appleseed Center for Law and Justice conducted research across Alabama to gain a more nuanced understanding of the day-to-day impact outstanding court debt had on individuals and households.



POLICY SOLUTIONS: SPRD State-Level Debt Relief and Policy Change



Alabama

HB 95 passed, giving the more than **33,000 people** exiting prison six months to pay fines and fees.



Arkansas

\$35.2 million of medical debt was paid off, helping close to **24,000 people**.



Georgia

Special institution fees will now be removed from tuition bills, saving students an estimated **\$230 million**.



North Carolina

15,400 driver's licenses have been reinstated, and over **\$3 million** in long-term debt has been eliminated in the past year.



South Carolina

The Fair Lending Alliance campaign launched to cap interest rates at **36%** for the nearly **60,000** people who take out payday loans annually.



Tennessee

Piloting ability-to-pay assessments; an estimated **\$220 million** in fines and fees remain unpaid every year.



Texas

SB 37 passed, protecting about **4,000 Texans** from losing professional licenses each year because of student loan default.



RESOURCES

- [Employer-Sponsored Small-Dollar Loan Implementation Guide](#) (FINRA Investor Education Foundation, Filene Research Institute)
- [Employer-Sponsored Small Dollar Loans—A Survey of Products and Employers](#) (FINRA Investor Education Foundation, Urban Institute)
- [Medical Debt and its Impact on Health and Wealth—What Can Philanthropy Do to Help](#) (Asset Funders Network and Aspen Institute Financial Security Project)
- [Set Up to Fail: Fines, Fees & Financial Insecurity](#) (Asset Funders Network and Aspen Institute Financial Security Project)
- [What Grantees Want Funders to Know – Lessons from the Southern Partnership to Reduce Debt](#) (Asset Funders Network and the Annie E. Casey Foundation)
- [Lessons from the Southern Partnership to Reduce Debt in 2020](#) (Prosperity Now)

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