Banking, Saving, and Transitions Out Of Homelessness:
How the Community Empowerment Fund Can Expand Assets and Access through Savings Services

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Introduction

Low-income communities are underserved by commercial financial institutions. Banks maintain little presence in lower-resource neighborhoods, while alternative financial services such as check-cashers and payday lenders proliferate and continue to damage household opportunities to build assets and break cycles of poverty. Meanwhile, community development financial institutions and social service agencies remain committed to filling the gaps between the need for household income stability expressed by low-income and transitioning communities and the available range of financial services and savings options. One small example of this process has been localized in the experiences of a group of students, community members, and shelter residents who launched the Community Empowerment Fund in Chapel Hill, North Carolina in May of 2009. With the goal of adapting the internationally successful model of microfinance to meet the particular needs of the homeless and at-risk communities in Orange County, the Community Empowerment Fund (CEF) has experimented in small loans, savings services, educational trainings, and assertive relational support since the pilot launch. From the perspective of a group of students in CEF, this paper seeks to explore the particular challenges to accessing formal forms of credit and savings experienced by low-income communities and the corresponding barriers to economic security. In response, this research further discusses opportunities for the creation of financial services capable of meeting the particular needs of communities and households experiencing poverty or in transition.

Methodology

This research was pursued in consequence with a group of four students from the Community Empowerment Fund, a student-run microfinance initiative at the University of North

Carolina at Chapel Hill. These four students—Jon Young, Alexis Seccombe, Santiago Beltran, and myself—all came together through the organization with the goal of gaining a deeper understanding of issues related to the growth and innovations of the Community Empowerment Fund.

In order to base our learning equally in theory as in experience, this research was informed by related readings in policy and nonprofit management, as well as interviews with CEF borrowers and loan officers, and conversations with industry experts. Evaluative interviews were conducted with two of the longest-standing CEF borrowers, and directed conversations were pursued with a range of individuals, including academic professors and researchers, directors of both credit unions and conventional banks, a substance abuse counselor at the Chapel Hill shelter, street outreach workers, directors and staff of area nonprofits serving similar communities, and other student-run microfinance initiatives in the United States. This research thus incorporates lessons learned during these conversations and through these readings, along with significant reflection on the experiences of student volunteers and ourselves amongst them during the pilot launch of the Community Empowerment Fund.

Challenges to Banking for the Poor and the Dominance of Alternative Financial Services

One in four Americans are unbanked, while many others are underbanked (Barr and Blank, 2009).

Why do commercial banks not retail services to lower-resource customers? A conversation with Creighton Blackwell, administrator of the Community Development Department/Community Reinvestment Program at RBC Centura, highlighted the challenges to banking the unbanked in conventional profit-driven financial institutions. Creighton described that every account the bank opens is essentially a risk, as the bank risks losing money through delinquent overdraft charges or excessive activity which costs the bank more per unit of volume in terms of the number of transactions. Thus, in the case that a person has a history of delinquent overdraft charges or otherwise unpaid bank debt, a conventional bank has no incentive to give that person a second chance in banking and allow them to open a new account and a new relationship with the bank. Creighton described that banks ultimately make their money off of loans and large accounts—not from the small, free checking accounts opened for individual customers (Blackwell, 22 Apr 2010). In summary, there is little to no business incentive for a bank to provide services to low-income customers—no incentive that is, except for one well-enforced piece of federal legislation.

The Community Reinvestment Act (CRA) of 1977 was passed to address the disparity in the provision of commercial banks' services to low- to moderate-income households. The act requires CRA compliance before approving banks for branch expansions, mergers, or acquisitions, and compliance is judged on banks' performance in five areas related to anti-discrimination practices and community outreach. According to Creighton, this act requires every bank "to be a player in the community" (22 Apr 2010).

Nonetheless, the CRA does not necessarily require that a bank serve the financial services needs of low-income communities. In Orange County for example, "low- to moderate-income" can mean upwards of $60,000 annual income, or relatively far from the poverty line. The CRA requires loan portfolios to be anti-discriminatory, but does not necessarily require commercial banks to provide savings and deposit options equally to low-income communities as to higher-resource customers. Any delinquent fees render a person "unbankable," as the Chex Systems utilized by most mainstream banks will automatically disqualify an individual with unpaid bank debt to open an account at any member financial institution (Blackwell, 22 Apr 2010). This system of exclusion and disavowal of "second-chance banking," coupled with myths of frozen accounts, debtor and ex-landlord liens, minimum balances, and hidden fees all create a system of obstacles and barriers to banking for low-income households.

As a result, the demand for credit and banking in low-income communities is in many ways currently being captured by credit cards and alternative financial services (AFS). AFS providers charge high rates relative to the financial institutions utilized by moderate-income families—providing services such as check-cashing, bill payment, short-term loans, tax preparation, money orders, and payday loans. These services target the short-term financial needs of low-income households while charging these households a premium price for the products. (Schreiner and Morduch, 2002). The demand for payday loans is high. According to a report by Dr. Michael Stegman, the Director of Housing and Policy at the MacArthur Foundation, 80% of payday loans in the U.S. are reportedly less than $300 (Stegman, 2007). Furthermore, Dr. Stegman reports that while as recently as 15 years ago almost no payday lenders existed, today, "there are more payday loan and check cashing stores nationwide than there are McDonald's, Burger King, Sears, JC Penney, and Target stores combined (2007).

By profiting off of the short-term credit needs of low-income households and otherwise severely credit-constrained individuals, payday lenders charge exploitative rates and incentivize serial borrowing—deepening the indebtedness of at-risk households. And business is booming; industry loan volume has grown "from about $8 billion in 1999 to between $40 and $50 billion in 2004" (2007). Since Stegman's report, the Center for Responsible Lending and others have championed a campaign to kick payday lenders out of statewide markets, resulting in the expulsion of such lenders in several states, including North Carolina.

A reliance on check-cashing outlets or even banks at which one does not hold an account significantly reduces take-home pay for the poorest households in the United States. Access to formal financial institutions can provide low-income households with the opportunity to accumulate savings, build credit, establish assets, and insure against financial emergencies. Compare this with the relationship with a check-casher, in which a percentage of the check or a standard fee is scraped off the top of the person's earned income, diminishing take-home pay and providing no opportunity for deposit services or institutional savings over time. Meanwhile, rent payments do little to build credit and do not build family assets, and payday loans exploit the short-term credit needs without providing long-term benefits or enhancing formal credit opportunities. Thus, connecting poor households with formal banks and deposit services can provide meaningful opportunities for upward mobility and financial advancement which alternative financial services are not structured to provide (Barr and Blank, 2009).

However, connections alone to commercial banks do not meet the full range of financial services needs experienced by poor households. In fact, the business model and accounts structures of commercial banks often penalize the poorest customers, and it evolves that customers living paycheck to paycheck and hand-to-mouth pay more for banking services than the richest customers, in the form of overdraft charges and insufficient funds fees. In an interview with Frontline, Martin Eakes, the founder and CEO of Self-Help Credit Union, defined that it is ultimately the poorest customers who subsidize the free checking accounts and credit card industry for all Americans. Eakes stated:

> So 70 percent of all the overdraft fees on a checking account are paid by those account holders who pay that fee more than 30 times per year…Well, a little simple math: Thirty times $35 is over $1,000 for that account holder. So the 10 percent of account holders who are living payday to payday are basically subsidizing and paying the entire cost of checking accounts for all of Americans, and it's just not fair… Overdraft [fees] for checking accounts, credit card accounts that have these penalty

> gotcha fees, and payday lenders which charge this exorbitant 400 percent interest rate for short-term $300 loans over and over and over again, it's all the same. It's trying to find the group that is the most vulnerable, target them, and have them pay the entire costs of the infrastructure of the financial services industry. And it's just morally bankrupt. (Frontline, 19 Aug 2009).

Eakes demonstrates that commercial banks have done little to empower their lower-resource customers, ultimately taking advantage of their financial illiteracy and tenuous economic position. In a new report highlighting the efforts of Self-Help Credit Union, reporter Sue Kwon notes that almost 30 million Americans do not have a bank account, remaining at the whim of alternative financial services and unable to access the potential benefits mentioned thus far (15 Apr 2010). For a community development financial institution like Self-Help and, on a smaller level, the Community Empowerment Fund, these disparities in access and resulting limitations on actual opportunity require innovation in the industry and the adaptation of conventional banking to the particular needs of lower-income and transitional communities.

Innovative Approaches and Targeted Services for Marginalized Communities

During the pilot of the Community Empowerment Fund, loan officers came to the conclusion that while micro-loans provide a veritable point of entry into the program and may continue to be the program's base, micro-savings would likely come to overshadow the value of the loans. This conclusion is supported by an argument proposed by Von Pischke, who wrote that "most people want to save most of the time, whereas some people want to borrow some of the time" (Blank and Barr 2009, 86). While simple enough, this framework is too true. Shelter residents with volatile income streams based on day-to-day job-finds have trouble harnessing income towards moving (and staying) out of the shelter. Once out of the shelter or similar facilities, social service agencies find that without financial oversight or budgeting accountability following move-in, fewer transitioned residents are able to maintain housing (personal communication, Terry Allebaugh 2010).

The experiences of CEF thus support an argument proposed by Schreiner and Morduch in 2001, who concluded that "developing inexpensive saving services for the 'unbanked' appears to have greater potential for cost-recovery in the United States, and this could open up opportunities for poor households that are poorly served by existing for-profit and non-profit financial institutions" (2001, 6). In the pilot experience, loan officers reflected that the lack of formal bank accounts and complementary financial management exposed participants to significant financial and social risk. With cash in hand, participants risked being taken advantage of or becoming susceptible to past or persisting addictions. Without a savings account, weeks with less work or temporary imprisonment could result in income-expense imbalances large enough to end in eviction. Connecting individuals who are either shelter residents, in transition, or even those in housing to institutional opportunities to save can mitigate some of these risks.

However, simple connections between low-income customers and financial services are not enough. As Schreiner and Morduch argue, "the right institutional structure is particularly important for low-income families because they have little financial slack in their lives" (Blank and Barr 2009, 10). The pilot experience of CEF attests to the importance of the structure of both the account and the financial institution. Loan officers found that debit accounts that allow for the occurrence of overdraft and, likewise, savings accounts that have no limitations on withdrawals provide the customer with less actual opportunity to accumulate savings. In sum, "getting banked" does much less for a customer if the enrollment in formal financial institutions is not linked to some level of budgetary oversight and initial assistance in money management.

Following are several examples of account structures and banking models directed specifically towards communities historically marginalized by public and private financial institutions. These include Individual Development Accounts pioneered by asset-based welfare policy analyst Michael Sherraden, Micro Branches and friendly check cashers established by Self-Help Credit Union in California, and Independent Living Accounts for shelter residents in Toronto. These models were intentionally developed to provide structures that take into account and establish a framework for understanding the unique obstacles to financial opportunity for lower-resource families, emphasizing means to multiply limited savings, make deposit services accessible, and build meaningful and attainable asset goals. The final and following section captures the lessons learned which will inform future programmatic development for students in the Community Empowerment Fund.

Asset-Building: Individual Development Accounts

Established following Michael Sherraden's formative exploration of asset-based welfare policy in the early 1990's, Individual Development Accounts are designed to match low-income households' accumulated savings targeted towards investment in homeownership, small business, or education. In a discussion with Dr. Michael Stegman, Director of Housing and Policy at the MacArthur Foundation, he demonstrated that the significance of this program has been especially on the realization that poor families can save when given properly incentivized and appropriately structured opportunities to do so. Furthermore, assets like homeownership meet longer-term needs than income assistance, which focuses more on short-term consumption and maintaining the status quo rather than assisting families to overcome current conditions (Sherraden, 1991).

Longitudinal studies are currently being implemented by researchers at UNC and the MacArthur Foundation, championed by professor of Social Work Michal Grinstein-Weis and director of the Center for Urban and Regional Studies Bill Rohe. This research aims to determine the impact of IDA programs on children and long-term interactions with assets, income, and upward mobility out of poverty. Preliminary results and through conversations with Dr. Grinstein-Weis and Dr. Stegman show that though IDAs are valuable asset development tools, limitations for expansion exist. Program operation is costly compared to benefits, as many low-income families living on the margin are not at a point at which homeownership, small business start-up, or re-entry into higher education seems a realistic step. The development of meaningful and lifetime assets is however no less meaningful, as the endeavor makes strides towards allowing families on the margin to accumulate savings rather than simply make ends meet on a monthly basis. (Grinstein-Weis, 2010) (Stegman, 2010)

Friendly Check-Cashers: Self-Help Credit Union Micro Branches

Amidst an economic crisis that has rendered commercial banks and credit unions alike vulnerable to collapse, Self-Help Credit Union has gone against the grain, expanding and coming to the rescue in California. Over the past year, the North Carolina-based group has merged with several California-based credit unions. In late 2009, Self-Help launched an innovative program called Micro Branches, starting in San José, California. Recognizing the incredible proliferation of check-cashing services across the state of California and the size of the unbanked (and undocumented) customer base in the state, Micro Branches look like check casher, act like check cashers, talk like check cashers, but do not cheat like check cashers. According to Self-Help's website, Micro Branches "meet the customers where they are by providing check cashing services in a comfortable environment, along with credit union accounts and services" ("California Activities," 2010).

Self-Help's Micro Branches do not charge a huge fee like commercial check cashing services, as services can in some ways be subsidized and insured by the federal branch and membership services which will allow the group to continue to build branches in poor communities. Additionally, Micro Branches incorporate deposit options and financial literacy education, teaching customers how to use online banking and the value of formal savings. The locations will ultimately offer member customers access to credit options, creating loan packages relevant to the communities as market understanding develops. By locating in neighborhoods not currently served by commercial banks and keeping hours seven days a week, Micro Branches aim to serve both the working poor, the busy household, and the commuter, creating a link between short-term cash needs and long-term family investment.

Independent Living Accounts: Savings for the Homeless in Toronto

SEDI, which stands for Social and Enterprise Development Innovations, has been piloting a model in the Toronto shelter system of matching savings that assists shelter residents to save towards transitions while building life skills. The program is grounded in an understanding of the IDA model and asset-based approaches to poverty alleviation, and includes a money management course, a personal bank account, and matching incentives per dollar. According to a report produced by SEDI and incorporating return on investment calculations, SEDI's services "help participants to save, participate in the economic mainstream and gain foundational knowledge and confidence to support themselves in independent living" (SEDI, 2009).

In Toronto, where 30,000 people annually rely on homeless shelter services, the demand for tools to assist transitions that can be sustained is high. The ILA model was developed in this context, and has seen an estimated "$2.19 return on each $1 of project costs within the first year following project graduation" (SEDI, 2009). Furthermore, the research found that "95% of the program participants who moved out of shelters were still living independently and renting their own place 8 to 15 months after completing the program" (2009). Bank accounts still proved challenging to manage in the ILA program, which was consistent with the diverse barriers experienced by the homeless community to banking in the economic mainstream. Partners noted that bank fees were still too high and hidden fees still affected participants, which prompted SEDI to identify this challenge as a priority issue to mitigate in future banking partnerships. SEDI hopes to find a means by which to implement a no-fee account for the first 6 months of program participation.

Importantly, the SEDI research highlighted that a significant value of the ILA model is derived from the ability of the program to promote self-sufficiency as a motivator and a tool in and of itself for moving out of homelessness. Researchers found that "individuals, whenever possible, want to 'make their own way'. The mutual responsibility an active participation required from the individual participant in the ILA program appears to be fundamental to the ultimate success for obtaining and sustaining independent living" (2009). ILA thus became an empowerment-based program through an emphasis on personal capacity to save, learn, and progress—successfully differentiating itself from similar transitional programs.

Conclusions for the Community Empowerment Fund Moving Forward

In the Community Empowerment Fund, when dealing specifically with vulnerable and homeless individuals and families, volatile income and household emergencies keep families on the edge. As individuals often lack experience with formal financial institutions and have limited or poor credit histories, budgeting and money management education and assertive support throughout the process are critical to safe, convenient and meaningful deposit services. The pilot program under Self-Help Credit Union's Micro Branches emphasize the importance of the location and accessibility of financial services to the ability to develop products that cater to the needs of low-income and historically marginalized communities. In CEF, we have experienced this primarily through direct, face-to-face outreach, in the hopes of building a personal presence in the communities in which we work. Moving forward, lessons in the importance of check-cashing and direct deposit services will require further exploration and increasingly incentivize the establishment of personal accounts at commercial banks and credit unions for our clients.

From conversations and readings on Individual Development Accounts, we learned the importance of "a mix of carrots and sticks," that the presence of the match is more important than the multiple, and that the more involved participants can be in taking responsibility over their own goals, the better. Likewise, exploration into the SEDI model of Independent Living Accounts will continue to inform CEF members as we launch our Savings Programs this summer. Research on both IDAs and ILAs have informed our discussions as we decide on match rates, withdrawal procedures, and appropriate goal-setting for our micro version of IDAs, which we are calling Micro-Development Accounts and aim to launch in June of this year.

Finally, understanding that the ability of formal sector credit, checking, and deposit services to meet the broader range of needs in low-income communities is ultimately limited, we learned from social workers, academics, and substance abuse counselors alike that the accountability mechanisms, goal-setting, and relationships that we develop with our clients will always be the factors that make the difference between upward mobility and maintenance of the status quo. As such, moving forward, all of us in CEF are committed to determining means by which to promote savings that can motivate account holders towards goals, while building accountability through relationships between our student volunteers and our clients that can facilitate the realization of larger assets, visions, and the sustained transitions of families out of homelessness and poverty.

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